

CHINA'S INFLUENCE IN THE WESTERN HEMISPHERE

HEARING BEFORE THE SUBCOMMITTEE ON THE WESTERN HEMISPHERE OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED NINTH CONGRESS

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WEDNESDAY, APRIL 6, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:36 p.m. in room 2172, Rayburn House Office Building, Hon. Dan Burton, (Chairman of the Subcommittee) presiding.

Mr. BURTON. Good afternoon. A quorum being present, the Subcommittee on the Western Hemisphere will come to order, and I ask unanimous consent that all Members' and witnesses' opening statements be included in the record. Without objection, so ordered.

I ask unanimous consent that all articles, exhibits and extraneous or tabular material referred to by Members or witnesses be included in the record, and without objection, so ordered.

I ask unanimous consent that any Member who may attend today's hearing be considered a Member of the Subcommittee for the purposes of receiving testimony and questioning witnesses, and without objection, so ordered.

I want to apologize for my opening statement being a little longer than normal, but I think that this is an issue that deserves a little more scrutiny than normal, so bear with me.

Today the Subcommittee will look at the influence of China in the Western Hemisphere and the power it projects into the region in terms of political, diplomatic, economic, and security issues. At the end of the day we hope to have a clearer understanding of China's ambitions in the Western Hemisphere, and hopefully we will be able to draw some conclusions about the policy implications for the United States regarding China's growing presence in our backyard.

I thank our witnesses for joining us today, and I also want to thank my good friend, Bob Menendez, and his staff for their excellent support in preparing for this hearing.

When I served as Chairman of the Subcommittee on Western Hemisphere from 1995 to 1997, there was little discussion about the opportunities and threats China would pose in the Western Hemisphere. Clearly, things have changed since then. Particularly over the last few years, Communist China has moved aggressively into Latin America with billions of dollars of investments, trade agreements and massive infrastructure development projects.

The last hearing held by this Committee examined the state of democracy in Latin America and we heard some disturbing testi-

mony regarding signs that a few governments in the region have begun moving backwards toward totalitarian or authoritarian rule. There is no doubt that several of our neighbors in this hemisphere face considerable challenges to their maturing democracies. Persistent poverty, violent guerrilla conflicts, non-democratic leaders, drug trafficking, corruption, terrorist infiltration and increasing crime are making it difficult for many in the region to see the value of democracy.

Weak legal systems, lax enforcement of labor standards, and an immature institutionalization of the respect for human rights are fertile ground for Beijing's agenda and China is definitely exploiting this opening.

Latin America is an attractive destination for China as it is an area of the world that is rich in mineral resources, commodities and particularly energy sources.

As the world's second-largest consumer of oil, China is a leading competitor of the United States in the search for oil, gas and minerals in Central and Southeast Asia, the Middle East, Africa and now in Latin America.

China alone accounts for 40 percent of the global growth in oil demand in the last 4 years, according to the United States Energy Department, and its national consumption is projected to rise to 12.8 million barrels a day—from 5.56 million barrels now—over the next 20 years. Most of all, that oil will need to be imported. The United States by comparison now uses 20.4 million barrels a day, with nearly 12 million barrels of it imported.

As we all know, oil is a finite resource and the competition to exploit is a zero-sum game. The more global oil the Chinese gobble up the less oil available to flow into American power plants, commercial trucks and home heating systems. We have already seen the effect at the gas pump as gas prices move ever higher, squeezing economic growth.

With the largest oil reserves outside the Middle East, and a President who says that his country needs to diversify its energy business beyond the United States, Venezuela has emerged as an obvious contender for Beijing's attention. China has also signed accords with Peru and is now exploring projects in Bolivia and Colombia. Furthermore, China is also interested in developing the Canadian tar sands, where estimates of recoverable heavy oil range from 175 billion to 1.6 trillion barrels of oil.

Oil is by no means the only industry in Latin America receiving a huge influx of Chinese money. In November 2004, China's President Hu Jintao visited Brazil, Argentina, Chile and Cuba. By the end of his trip, some 400 agreements and business deals had been signed.

In Argentina, Chinese State-owned enterprises are due to invest nearly \$20 billion in the coming decade in mines, railroads and other infrastructure projects. Last year alone, Chinese State-owned enterprises pumped \$1.04 billion into the region, accounting for 36.5 percent of Latin America's foreign direct investment. Yet even this impressive figure places in comparison with what President Hu and his delegation pledged in future support. By the year 2015, the Chinese intend for their investments in the region to top \$100 billion.

But what China gives with one hand, it expects to receive with the other. In other words, there is a cost to pay for Chinese assistance, and that cost is diplomatic and economic.

After President Hu's visit, Argentina, Brazil and Chile recognized China as a "market economy," a status that precludes anti-dumping tariffs. Yet, China continues to pirate intellectual property; produce counterfeit goods; and dump these and other products into markets in this hemisphere; and engage in currency manipulation. The virtual flood of Chinese exports is eating away at local industries in Central and South America, and here in the United States.

These unfair Chinese trade policies and practices have exacerbated trade deficits across the region. According to the U.S. Census' Federal Trade Bureau, in 2004 the United States' trade deficit with China reached nearly \$162 billion. That is the largest trade deficit we have with any nation on earth, and one-sixth of our total trade deficit.

Canada and Mexico have also been subjected to China's unfair trade policies and practices. Canada's trade deficit with China grew from \$1.2 billion in 1995 to \$13.8 billion in 2003; and Mexico's trade deficit with China grew 57.7 percent in 1 year from October 2003 to October 2004.

The United States has the most dynamic and powerful economy in the world and yet even our economy and industries are being staggered by the massive trade imbalance with China. It is not hard to imagine the impact this unlevel playing field is having on the economies of smaller countries in Latin America.

I have long urged the Administration to take a hard-line approach to China's unfair trading practices, and I am pleased that some success has been achieved on the question of China's artificially devalued currency, the yuan. While the Chinese have acknowledged in recent months that they will need to eventually let the yuan float openly on the world currency markets, they have not set a timetable for doing so. Clearly, we have more work to do and I urge President Bush and the Administration to continue to keep the issue of Chinese trade practices on the international agenda.

I would also caution our friends throughout Latin America about granting China full market economy status. I think it is clear that China's state subsidies, its currency peg, and poor labor rights conditions disqualify China from truly deserving "market economy" status. Consequently, granting China full market economy status would be in my view a grave error in judgment.

China's return on its investments in Latin America goes beyond securing China's dominant trade position. China is lending support to the nations of Latin America and expects in kind support from them in multilateral world forums. China wants Latin America's votes at the United Nations and other forums to counterbalance United States influence, particularly on the sensitive subject of Taiwan. In the past 12 months, Grenada and Dominica officially de-recognized Taiwan and Mercosur countries—Argentina, Brazil, and Uruguay—are currently pressuring Paraguay to do the same. Some observers expect that Haiti may soon follow.

Consequently, the influence of Chinese money combined with the rise of leftist, socialist and populist Presidents in Venezuela, Brazil, Argentina and other Latin America countries has given China a

rare opportunity to get support for its proposals to change the U.N. voting system and to shield itself from international criticism on issues like political persecution, religious freedom, the occupation of Tibet, and its deplorable human rights practices more broadly. And the Chinese are taking full advantage as evidenced by the recent passage of the Anti-Secession Law.

The problem of Taiwan may seem a world away from Latin America but make no mistake, China's rising political influence and economic expansion in Latin America means that the repercussions of any confrontation over Taiwan can and will be felt right here at home. In fact, in recent congressional testimony, CIA Chief Porter Goss said that while terrorism remains the top priority, he intends to move more resources toward emerging threats and he specifically cited instability in Africa and Latin America, and pointed to growing concerns about China's military buildup.

Just last month, China announced a 12.6 percent rise in official defense spending to \$30 billion, a figure that some experts believe to be well below their actual defense spending. These weapons are not just staying in Mainland China either.

China has been aggressively exporting weapons technology and its transfers of Portable Air Defense Systems (MANPADS) and Surface-to-Air Missiles (SAMS) are of particular concern. Since 1990, China has sold some 240 SAMS to Latin America, some of which have the potential to fall into the hands of narco-terrorists. In addition, in 2000, China reportedly made three shipments of weapons and military-grade, dual-use explosives to Cuba, a known state-sponsor of terrorism.

The rise of China has been spectacular and the country is on her way to attaining great power status. With great power comes great responsibility though, and I believe that as a sovereign state, China has an obligation to conduct its affairs with sound and just policies, both within its territorial boundaries and outwardly. So far China's power status has been largely based upon its staggering rate of economic growth.

In time we will see whether a human-rights-abusing Communist state can sustain a development program which prioritizes the eradication of poverty but places little, if any, emphasize on political freedoms. Whether it can or not will have a profound effect on the sustainable growth in China, the political stability there, and the nature of power that the PRC projects abroad.

The question then becomes: If China's priority is economic development, will Beijing pursue a foreign policy that places high priority on stabilizing the international environment, or will it seek to offset the status quo and displace traditional trade frameworks and alliances in order to create strategic openings?

The traditional goals of United States policy in Latin America have always included promoting political stability, promoting democracy, increasing access to markets, and preventing the rise of hegemonic power. Until we know the definitive answer to this question of whether China will play by the rules of fair trade, and engage responsibly on trans-national issues, I believe we should be cautious and view the rise of Chinese power as something to be counterbalanced or contained, and perhaps go so far as to consider

China's actions in Latin America as the movement of a hegemonic power into our hemisphere.

I believe China's rising economic, political and military influence in the Western Hemisphere poses serious challenges to the United States in the years ahead, and if we are not careful, Beijing's influence could easily unravel the region's hard-won, United States-backed reforms to fight against corruption and human rights abuses, increase government transparency and combat intellectual property violations, and the democracy that we see as fledgling democracies could be in real jeopardy. We must work in earnest to prevent this from happening.

As Chairman of the Subcommittee, with the support of my good friend and the Ranking Minority Member, Mr. Menendez, I intend to pursue an aggressive agenda of oversight and investigation with the ultimate goal of promoting American foreign policy proposals that strengthen democracy, equitable growth, prosperity and mutual cooperation in our hemisphere, and I look forward to hearing the thoughts and suggestions of our witnesses here today.

I now recognize my good friend and colleague, Congressman Menendez.

[The prepared statement of Mr. Burton follows:]

PREPARED STATEMENT OF THE HONORABLE DAN BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA, AND CHAIRMAN, SUBCOMMITTEE ON THE WESTERN HEMISPHERE

Today the Subcommittee will look at the influence of China in the western hemisphere and the power it projects into the region in terms of political, diplomatic, economic, and security issues. At the end of the day we hope to have a clearer understanding of China's ambitions in the western hemisphere, and hopefully we will be able to draw some conclusions about the policy implications for the United States of China's growing presence in our backyard.

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In Argentina, Chinese state-owned enterprises are due to invest nearly \$20 Billion in the coming decade in mines, railroads, and other infrastructure projects. Last year alone, Chinese state-owned enterprises (SOEs) pumped \$1.04 Billion into the region, accounting for 36.5% of Latin America's foreign direct investment (FDI). Yet even this impressive figure pales in comparison with what President Hu and his delegation pledged in future support. By 2015, the Chinese intend for their investments in the region to top \$100 Billion.

But what China gives with one hand, it expects to receive with the other. In other words, there is a cost to pay for Chinese assistance, and that cost is diplomatic and economic.

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These unfair Chinese trade policies and practices have exacerbated trade deficits across the region. According to the U.S. Census' Federal Trade Bureau, in 2004 the United States' trade deficit with China reached nearly \$162 Billion. That is the largest trade deficit we have with any single nation on earth and 1/6th of our total trade deficit. Canada and Mexico have also been subjected to China's unfair trade policies and practices—Canada's trade deficit with China grew from \$1.2 billion in 1995 to \$13.8 billion in 2003; and Mexico's trade deficit with China grew 57.7% in one year from October 2003 to October 2004.

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Mr. MENENDEZ. Thank you, Mr. Chairman, and thank you for your engagement with us in terms of developing the agenda for the Committee and for our input in that regard. It is very welcomed and we appreciate it, as we appreciate working with you on a collegial level as well as with our staff. It is nice in an institution to be able to work toward common goals together.

I want to thank you for holding this important hearing today on China's influence in our hemisphere. In my mind a growing influence of China is no accident in the hemisphere. And the Adminis-

tration, in my mind—and I have been a constant critic in this regard and have extended this criticism to previous Administrations as well, so I feel very free to do so in this regard—has basically ignored the hemisphere.

China has increased its engagement. For example, last year, President Hu Jintao spent almost 2 weeks visiting Brazil and other countries, devoting more time to Latin America than President Bush had in his entire first term.

While this Administration has cut core development funding to Latin America and the Caribbean by an average of 12 percent, China has pledged \$100 billion to the region over the next 10 years.

While this Administration's policies have hurt our image in the hemisphere, China is working to improve its image.

The region's positive image of the United States has fallen from 73 percent in 2001 to 64 percent in 2004. In Argentina, three times more people have a positive image of China than of the United States.

While this Administration has no real policy in the hemisphere outside of trade and counternarcotics, China has developed a strategic and comprehensive economic and political strategy for the region.

First and foremost, China's interest in Latin America because of its soaring economy and enormous populations create a voracious appetite for the region's raw materials, particularly oil.

As I said before, China has pledged to invest \$100 billion in the region over the next 10 years, with a majority of these investments going toward oil and gas exploration, copper and infrastructure. China's imports from Latin America have increased over 600 percent during the past 5 years even though they still represent a relatively small portion of China's overall imports.

China needs to increase its oil supply and, according to some experts, may eventually become the world's second largest importer of oil after the United States.

China recently signed 19 agreements with President Chavez, and promised Venezuela millions of dollars in long-term investments. For China, Venezuela is a potential supplier and political ally. For President Chavez, oil deals with China are yet another opportunity to verbally threaten the United States, which currently imports an estimated 12 percent of its oil supply from Venezuela and remains Venezuela's biggest importer.

While Chavez's recent threats seem short-sighted and more hyperbole than reality, we have to maintain a careful watch on China-Venezuela oil agreements.

Now, I support international investment in Latin America, and I see that in the Assistant Secretary's statement, that he will make before the Committee, focuses a lot about our investments. Those are private corporate investments in Latin America. But I am concerned that, by once again exploiting its raw natural resources, Latin America may be set up for another series of boom and bust cycles.

Latin America's economic future lies in its ability not only to export raw materials, but to compete on the world market against China and other Asian countries.

I am also concerned that China is using its economic power to advance its political agenda, particularly as it relates to Taiwan. It is clear that for Latin America there is a price to pay for Chinese investments. Consider this: In order to do business with China, a nation must adopt a one-China policy. Out of the 25 countries in the world that recognize Taiwan, 12—nearly half—are in Latin America. China can invest a relatively small amount of money, from their perspective, to combat the influence that Taiwan has earned through technical and economic assistance with its own promise of trade and development aid.

For instance, by enticing Dominica with an aid package that is over 10 times larger than the one offered by Taiwan, China succeeded in getting the small Caribbean country to switch sides.

Separately, China is nurturing other relationships in the region in order to bolster its global standing and power. For instance, Argentina, Brazil and Chile recognized that China has a market economy following President Hu's visit last November. China supported Brazil in its bid for a permanent seat on the United Nations Security Council and endorsed Brazil's candidate to lead the World Trade Organization. With these actions China is hoping to shore up its political capital and strengthen its alliances in international organizations, and its agenda in those organizations.

China sent 125 police peacekeepers to Haiti to assist with the U.N. mission, marking its first military deployment to the Western Hemisphere.

And besides advancing its economic and political agenda, China may also be looking to Latin America to serve its defense and intelligence needs. Just about a month ago, in his testimony to the House Armed Services Committee, General Bantz Craddock of the U.S. Southern Command warned of China's increasing influence among Latin America militaries. He specifically noted that Chinese defense officials made 20 visits to Latin America and Caribbean countries just last year.

So, in conclusion, while China has clearly laid out an economic and political plan to increase their investment and, most importantly, their influence in the hemisphere, the United States has not been engaged in its own front yard. As we look toward the future, I propose that the United States actively reengage in the hemisphere, from political involvement to investment in regional development, collaborate with Latin American countries to create a strategy to maximize the region's economic competitiveness vis-a-vis China and other Asian countries, and work together with our neighbors to analyze and study the long-term impact of China's involvement.

The United States must once again lead in our own hemisphere and our own neighborhood, not in attempt to dominate nor to control, but to engage in the fight against common problems, challenges and goals, and to cooperate in those efforts. As I have said many times before, it is in our national interests and national security interest to do so.

I look forward to the testimony of our witnesses, Mr. Chairman.

Mr. BURTON. Thank you, Mr. Menendez, and I want to tell you it is a real pleasure to work with you. We have worked together before in this area, and I know we will do well together, and I can

say as far as the Congress of the United States and this Subcommittee are concerned, we are going to be very proactive in trying to improve relations and to get more information on the situation in Latin America.

Any of my colleagues have any opening statements?

The gentleman from Massachusetts, the "Silver Fox."

Mr. DELAHUNT. I just have to make an observation. I think that what we are seeing, Mr. Chairman—and I appreciate you having this particular hearing—is that when we do not make the kind of investment that the Ranking Member has been advocating for as long as I have served on this particular Committee, what we end up with is having a hearing on those who are our competitors, mark them and describe them not as our adversaries, but as our competitors, and many on this Committee have been advocating during the course of my term in Congress that it is time to get engaged in Latin America.

This is more about our policy than it is about the Chinese, let me suggest that, and what we have failed to do. I noted in Secretary Noriega's comment, and I just cannot let this pass, that Haiti will return to our family of democracies when it holds elections later this year, leaving Cuba as the odd country out.

Well, if that is the criteria and the measurement of what constitutes a democracy, simply an election, we are going down the wrong road. Let us be really candid. An election in Haiti is not going to do it for Haiti, not at all. Haiti is a failed state and will continue to be a failed state until the United States plays a truly positive, constructive role, and with that I yield back and thank the Chair for the time.

Mr. BURTON. I thank the gentleman. I look forward to working with him on some of these trips we are going to take to Latin America and the Caribbean.

Mr. FALCOMAVAEGA. Mr. Chairman, I just wanted to associate myself with the comments of our Ranking Member, a very succinct, very precise, and very astute observer of what has been happening in the Western Hemisphere for however many years now. Perhaps we should consider the fact that Chinese presence in the Western Hemisphere has been a blessing in disguise to the extent that it is kind of forcing us now to give them attention and pay proper attention to these problems that we have been discussing for all these years. But to that extent I look forward to hearing from the witnesses.

Mr. BURTON. Thank you, Mr. Falcomavaega.

Will the gentlemen please rise.

[Witnesses sworn.]

Mr. BURTON. Assistant Secretary Noriega, we will start with you.

TESTIMONY OF THE HONORABLE ROGER F. NORIEGA, ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. NORIEGA. Thank you very much, Mr. Chairman, Congressman Menendez, other Members of the Subcommittee. I appreciate the opportunity to testify on the increased presence of the People's Republic of China in the Western Hemisphere and its implications on United States interests.

Mr. Chairman, as we consider this topic it is important to bear in mind a couple of points. First, the United States itself engages the People's Republic of China economically and politically to our mutual benefit. Secretary of State Rice said just 3 weeks ago that we welcome "the rise of a confident, peaceful and prosperous China" from de-nuclearizing the Korean Peninsula to fighting terrorism, HIV/AIDS and SARS. The United States has found common ground with China.

A couple of other additional points are that the Chinese economy has been growing about 9 percent annually since 1979, which has produced the sixth largest economy in the world, and it is only natural that that shadow is being seen in Latin America, particularly in recent years.

As in Asia and Africa, China's growing profile in this hemisphere reflects its broader emergence as a global political and economic power. China's interests in Latin America are driven by several important factors, some of which have been alluded to here, to secure reliable sources of raw materials for its continued economic expansion; to lessen its isolation in international fora; to showcase its emergence as a major power in the world; to gain bargaining power in seeking exemptions from global trade rules; to pursue defense and intelligence opportunities; and to pursue its policy of isolating Taiwan, which is recognized by 12 of the Latin America Governments.

We continue to monitor closely China's outreach to Latin America as we monitor it around the world. We seek to ensure that this activity does not run counter to U.S. goals in the region and is compatible with this hemisphere's hard-won progress toward representative democracy. We see several drawbacks clearly associated with Chinese economic engagement in the region.

First, several Latin America economists have noted that Chinese investments often stipulate low-interest loans rather than grants, and that they require that work be done by Chinese companies. Others have noted that Chinese investments in Latin America may make Chinese industries even more competitive in the global market at the expense of Latin America and the Caribbean economies.

Much of Chinese investment is extractive in nature, concentrated in modernizing transportation to and from mineral sites as it draws raw materials out of the region. And as Congressman Menendez noted, the fact has not been lost to regional leaders and economists that Chinese investments focus heavily on these raw materials rather than on manufacturing or other value-adding activities that generate jobs or boost job skills in the region.

Mr. Chairman, my colleague will talk about the military-to-military contacts, but we are noting that China is expanding those contacts as well. While they are minimal and start from a low baseline, they have to be monitored closely, and we seek to ensure that they do not undermine the commitment of Latin American militaries to democracy in civilian control.

Despite China's increasing investment in Latin America, amounting to some \$6.5 billion, it is dwarfed by a total United States investment in Latin America of \$300 billion. Moreover, the United States remains by far the largest market for the region's exports, and my prepared testimony has some of this data. In addi-

tion, our assistance programs make a crucial difference above and beyond private sector flows, precisely because they are intended to help our neighbors open their markets, educate their citizens, deepen the rule of law, and take economic reforms that lay the foundation for broad-based sustainable growth.

Another aspect where no one can compete with the United States in this hemisphere is the intensity of our people-to-people context, the cultural context. Thirteen percent of our population are Hispanics, yearly remittances to the region are \$35 billion, and there is an immense flow of travel back and forth between North and South America.

While we believe that our ties to the region remain solid and unshakable, we recognize that strengthening these bonds and solidifying democracy and economic growth are essential if we are to maintain this posture in the hemisphere.

One of the keys to this process, and one where we are hoping for the positive backing of the United States Congress is in our trade agenda, and particularly approval of the CAFTA-DR trade agreement.

Closer ties are a strong signal of friendship and commitment, and they serve our mutual interests. Congress's support and approval of CAFTA-DR and conclusion of the ongoing trade talks with the Andean countries and Panama will make clear that the hemisphere has no greater and more committed partner than the United States. Moreover, by strengthening our economic ties to our partners, to our natural market in this region, we are all better able to compete in the global marketplace.

Nevertheless, it is important to measure China's intentions, in part, by the close alliances that it pursues in this region. Obviously, if it chooses to align itself with disruptive forces, such as Castro's Cuba and others, then it would be of great concern to the United States. We are confident, however, that broadly speaking, the hemisphere's commitment to democracy, human rights and market economies will not be compromised for short-term economic interests.

The prosperity and security of the United States is inextricably linked to growing prosperity and security around the globe, and not least with the prosperity and security of our partners here close to home in the Western Hemisphere.

Mr. Chairman, China may be a growing presence in the hemisphere as it is in the rest of the world, but it is safe to say that the United States has been and will continue to be the long-term partner of preference, a preference that is not based on short-term economic deals, but based on long-term objectives and shared values, and this Administration will work with Congress to ensure that that remains so.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Noriega follows:]

PREPARED STATEMENT OF THE HONORABLE ROGER F. NORIEGA, ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

I appreciate the opportunity to testify on the increased presence of the People's Republic of China in the Western Hemisphere and its implications for United States interests.

The prosperity and security of the United States is inextricably linked to growing prosperity and security around the globe, and not least with the prosperity and security of our partner nations in the Western Hemisphere.

As in Asia and Africa, China's growing profile in the Hemisphere reflects its broader emergence as a global political and economic power. China is now the world's sixth-largest economy, its third-largest trading nation, and a major destination for foreign-direct investment from around the globe. As economic globalization has expanded, so too have the linkages between East Asia and Latin America. In the past year, Korea has signed an FTA with Chile, and Japan an FTA with Mexico.

China has been translating its economic success—and its search for resources to fuel its economic development—into greater influence around the world, including in Latin America and the Caribbean. In a March 19 speech in Tokyo, Secretary Rice noted that the U.S. welcomes the rise of a confident, peaceful and prosperous China and that we want China as a global partner, able and willing to match its growing capabilities to its international responsibilities. From de-nuclearizing the Korean peninsula to fighting terrorism, HIV/AIDS, and SARS, the United States has found common ground with China.

This is the context in which we view China's increasing economic, diplomatic, and military contacts with the countries of the Western Hemisphere.

China's interest in Latin America is driven by several factors:

- To secure reliable sources of raw materials for its continued economic expansion through increased trade and investment;
- To lessen its isolation in international fora;
- To showcase its emergence as a major power;
- To pursue defense and intelligence opportunities, and;
- To pursue its policy of isolating Taiwan, which is recognized by twelve Latin American governments.

U.S. interests are clear: we seek to support democracy, free markets, and economic integration in the Hemisphere.

That being said, we continue to monitor closely China's outreach to Latin America, as we monitor it elsewhere. We seek to ensure that this activity does not run counter to U.S. goals in the region and is compatible with this Hemisphere's hard-won progress towards representative democracy. We will remain actively engaged, here in our own hemisphere and around the world, in pursuit of our core interests and values. The Western Hemisphere is our home. By virtue of geography, history, culture, demographics, and economics, the United States is linked to our Hemispheric partners in ways other countries cannot match.

China's Economic Outreach to Latin America

Over the past year, the global economy grew by almost five percent—the fastest rate in two decades—and about half of this growth was generated by the U.S. and China. For its part, China's economy grew at an average real rate of about 9 percent from 1979; it grew 9.3% in 2003 and 9.5% in 2004. This rapid growth has resulted in a dramatic increase in China's demand for many raw materials and food stuffs.

China is now the world's second-largest consumer of petroleum, and has become a net importer of oil. China also imports large quantities of iron ore, copper, bauxite, timber, zinc, manganese, tin, and soybeans. In earlier years of its economic expansion, China sought critical raw materials primarily from sources in Asia, but as the economy has continued to expand, China has increasingly looked to Latin America and Africa as sources of key commodities, most notably petroleum, copper and other minerals, and foodstuffs.

One impact has been to raise profits for commodity exporters around the world, including in Latin America, contributing in part to the region's improved economic performance in 2004. This makes China an attractive market for countries in the Hemisphere and, given China's interest in resources, an investor worth courting.

In 1999, China exported about \$5 billion worth of goods to the Latin America and the Caribbean and imported about \$3 billion worth of goods. By 2004, exports rose to \$18 billion and imports, primarily soy products and minerals, rose to \$22 billion—thus, the region now runs a trade surplus with China, according to official Chinese statistics. While exports from the Hemisphere to China are concentrated in food and raw materials, China's principal exports to the region include textiles, apparel, shoes, machinery, televisions, and plastics.

The Latin American industries that have benefited most from exports to China are concentrated in soy cultivation and extractive industries that are not labor intensive. Moreover, China's exports, especially in textiles, apparel, and shoes, compete with Latin American and Caribbean producers. Textile and apparel production

have become an important niche industry in the Hemisphere, providing critical jobs and income. Major changes in these industries will have a significant economic and social impact in the region—primarily in Mexico, Central America, and the Caribbean. Since these producers utilize a substantial component of U.S. yarn and fabric, it is in our interest to see that their exports not be substituted by those from China. Implementing the Central America-Dominican Republic Free Trade Agreement is a key step in this direction.

It is also important to note that while textile and apparel production tend to be concentrated in Mexico, Central America, and the Caribbean, the main exporters of raw material to China are concentrated more in South America.

China is not only importing more raw materials from the Western Hemisphere, but it is also making significant investments in the region. The Chinese Ministry of Commerce estimates the cumulative total of Chinese investment in Latin America as of the end of 2003 was US\$4.62 billion, accounting for 14 percent of China's total cumulative realized outward investment. Preliminary Ministry figures estimate that 46 percent of China's 2004 foreign investment was in Latin America and the Caribbean, adding another \$1.7 billion to the total. We will continue to analyze this trend and how it affects the region's economic balance.

There has been a significant increase in Chinese commitments to invest in not only extractive sectors, but infrastructure as well, as China looks to make transportation of goods more efficient and economical. Most of the investment in ports, roads, and docks are focused on countries producing the basic commodities to be exported to China and in countries on the Pacific Rim.

China has also entered into cooperative arrangements in more technologically advanced industries such as aircraft manufacturing with Brazil's Embraer, satellite launches with Brazil, and telecommunications with Venezuela. Many of these investments are still in preliminary stages and have not yet borne fruit.

Despite China's increasing investment in Latin America, it remains well behind the total U.S. investment in Latin America of more than \$300 billion, and the United States remains by far the largest market for this region.

Additionally, there may be drawbacks associated with Chinese investment in the region:

- Several Latin American economists have noted that Chinese investments often include low-interest-rate loans that require the work be done by Chinese companies.
- Others have noted that Chinese investments in Latin America may make Chinese industries even more competitive in the global market at the expense of Latin American and Caribbean economies.
- Finally, the fact has not been lost on regional leaders and economists that Chinese investments focus heavily on raw materials, rather than on manufacturing or other value-adding activities that generate jobs or boost jobs skills.

Diplomatic and Political Activity—The Contest with Taiwan and “Visit Diplomacy”

Rivalry with Taiwan also plays into China's courting of Latin American countries. A key Chinese political objective is to isolate Taiwan, and China will actively court those twelve countries in this Hemisphere that recognize Taiwan. Worldwide, only 25 countries officially recognize Taiwan. Recently, Dominica and Grenada broke relations with Taiwan in favor of China, and Jamaica opened an embassy in Beijing. In the cases of Dominica and Grenada, Chinese promises of assistance preceded recognition, with China promising Dominica \$112 million over six years. Taiwan has sought to counter this with its own aid program in the region.

China also looks to regional organizations as a channel for economic and political engagement. In May 2004, the Organization of American States granted China permanent observer status. China also continues to pursue its long-standing application for non-regional membership in the Inter-American Development Bank. Before that can happen, however, China must make a \$200–300 million contribution to the Bank, and pre-pay its International Development Association loans. There will be no free rides for China in the IADB and we will make every effort to ensure that there is no politicization of loan considerations either.

The Chinese are also skillfully employing “visit diplomacy.” On the margins of the APEC Summit in Santiago in November 2004, President Hu Jintao visited Argentina, Brazil, Chile, and Cuba. Hu promised tens of billions of dollars for improving infrastructure—again, mainly to improve access to, and transport of, raw materials. During that visit, Brazil, Chile, and Argentina agreed to recognize China as a “market economy” for antidumping purposes, making it harder for their domestic industries to pursue antidumping charges against imports from China.

In December, Venezuelan President Hugo Chavez visited Beijing, signing agreements that would increase China's investment in Venezuela's oil sector and boost bilateral trade, which, as Chavez stated, could reach \$3 billion in 2005, more than double the total for 2004.

In January and February 2005, Vice President Zeng Qinghong visited Mexico, Venezuela, and Peru, and attended the opening ceremony of the first ministerial-level meeting of the China-Caribbean Economy and Trade Co-operation Forum 2005 in Kingston.

China has also deployed police to Haiti as part of a UN Security Council-authorized mission.

China is also expanding its military-to-military contacts in the Hemisphere. In previous testimony before Congress, General Bantz Craddock of the United States Southern Command noted that national-level defense officials from China made 20 visits to Latin America and the Caribbean, while defense ministers and chiefs of defense from nine regional countries have visited China. In addition, we have noted an increase in educational exchanges between China and several Latin American and Caribbean countries. While these contacts are minimal, we are watching them closely, and seek to ensure that they do not undermine the commitment of Latin American militaries to democracy and civilian control.

We note that the political dimension of China's contacts with some governments in the Hemisphere appears to be more important than China's contacts with other governments. In these cases, the nature of the contacts will become clearer with time. We will be attentive to any indication that economic collaboration will feed political relationships that could run counter to our key objectives for the region.

China's contacts with Cuba are particularly problematic in this regard. Chinese economic influence in Cuba grew through the 1990s. After a November 2004 visit by President Hu to Cuba, the PRC sharply accelerated its economic cooperation with Cuba, including in the strategic nickel sector. Castro predicted Chinese investment would double Cuban nickel output. The Chinese also offered sweeping debt restructuring, delaying payment on old loans for a decade. China has provided an estimated \$700 million in loans and credits to the Castro government. It appears that Chinese economic support for Cuba serves as a prop for Castro's decrepit and bankrupt regime; indeed, in a February speech, Mr. Castro referred to China as "a new motor" for his "revolution."

However, because the countries of the Western Hemisphere share many key common political values, it is unlikely that Chinese trade and investment or efforts to develop military contacts will translate into significant political support in the Hemisphere on the broad range of multilateral issues. We are confident that the Hemisphere's commitment to democracy, human rights, and market economies will not be compromised for short-term economic interests.

The United States in the Western Hemisphere

As China's presence in the hemisphere grows, the United States remains fully engaged with our neighbors. Our policy is built upon a shared commitment to democracy, free markets, and economic integration. We believe the strong and growing partnership between the United States and the Hemisphere is the foundation of the region's security, prosperity, and freedom.

I want to be clear: we do not take the status quo for granted, and we are constantly looking for opportunities to strengthen and expand these relationships with our partners in pursuit of our shared goals and objectives.

President Bush has outlined a strategy for the Western Hemisphere that rests upon four interdependent and mutually reinforcing pillars: bolstering security, strengthening democracy, promoting prosperity, and investing in people. And the key to implementing our agenda rests on multilateral cooperative engagement. This is reflected in our commitment to the Summit of the Americas process and the Inter-American system, primarily in the form of our work within the Organization of American States. We seek to constantly deepen bilateral relationships with old friends and establish new partnerships with emerging regional leaders.

Bolstering Security

While Chinese military-to-military contacts and peacekeeping activity may be growing, it is starting from a relatively low baseline. Moreover, these contacts are occurring at time of unprecedented cooperation between the United States and the countries of the Western Hemisphere on security matters. In 2005, we are providing more than \$112 million in Foreign Military Financing (FMF) to the region, making it the third consecutive year that FMF assistance has exceeded \$100 million. Our assistance has played a critical role helping the Government of Colombia meet the challenges posed by drug traffickers and terrorists.

Four countries from the region joined the Coalition for the Immediate Liberation of Iraq and sent troops to Iraq. El Salvador is on its fourth rotation. Ten countries from the Hemisphere are participating in operations to help stabilize Haiti; Brazil is leading the UN peace-keeping operation there.

We improved the basis for security cooperation in the Hemisphere by concluding fifteen Article 98 Agreements in the region. Through our efforts in the Special Summit of the Americas and the 2004 meeting of the Inter-American Committee Against Terrorism (CICTE), the political will of the hemisphere to combat terrorism was strengthened. The Special Conference on Security produced a declaration that provides a practical guide for resolving interstate border tensions, lowering pressure for arms spending, and fostering a climate of confidence, trust, transparency, and cooperation.

Promoting Democracy

The nations of this Hemisphere share a commitment to promoting freedom and the dignity of the individual. As President Bush said in his State of Union Address, "Our aim is to build and preserve a community of free and independent nations, with governments that answer to their citizens, and reflect their own cultures. And because democracies respect their own people and their neighbors, the advance of freedom will lead to peace." Our shared values and common traditions provide a crucial foundation for closer political and economic integration. Promoting that integration in a positive way is what U.S. policy is about—especially since the first President Bush launched the far-sighted Enterprise for the Americas Initiative in 1990.

In this quest, it is imperative we have strong, democratic, stable partners working with us to defend our common interests—in this Hemisphere and around the world. That is why we are working hard to help the region's elected leaders confront the challenge of making democracy work for the general welfare of all of their people.

Today, nearly every country in the Hemisphere has democratically elected governments. Guatemala, Nicaragua, and El Salvador—three countries just two decades ago embroiled in bloody civil wars—now routinely hold free and fair elections. Haiti will return to our family of democracies when it holds elections later this year, leaving only Cuba as the odd country out.

When popular unrest recently unseated the presidents of Haiti and Bolivia, the transfer of power in both nations occurred within the parameters of democratic institutions. And OAS efforts—supported by U.S. diplomacy—helped to preserve constitutionality in Venezuela, despite enormous challenges. To help hasten a peaceful democratic transition in Cuba, we are implementing a major new initiative including the recommendations of President Bush's Commission for Assistance to a Free Cuba. At the January 2004 Special Summit of the Americas, all democratic governments in the Hemisphere agreed, at U.S. urging, to deny safe haven to corrupt officials and their assets.

As set out in our unique Inter-American Democratic Charter, democracy is the only legitimate form of political organization in our Hemisphere. While we work to increase freedom throughout the region, we will place special emphasis on those nations where democracy is most at risk: Haiti, Bolivia, and Venezuela. Our goals also include achieving a peaceful democratic transition in Cuba, and strengthening democratic institutions throughout the Hemisphere.

We will redouble our efforts to fight corruption and promote transparency region-wide. Corruption undermines political institutions, economic development, and public confidence, and is one of the biggest threats to democracy and stability in our region. Our initiatives are directed largely at anti-corruption and democratic institution building activities.

Economic Ties

The U.S. now imports \$225 billion in products from Latin America and the Caribbean each year, and in 2004 we exported \$172 billion—more than to the European Union, and five times our exports to China. Half of our oil imports come from Western Hemisphere countries; this includes three of our top four suppliers (Canada, Mexico, and Venezuela.) Trinidad is our largest supplier of liquid natural gas.

Our stock of foreign direct investment in the region totaled \$304 billion at the end of 2003. These trade and investment numbers dwarf those of any other country. In addition, our assistance programs make a crucial difference above and beyond private sector flows—precisely because they help our neighbors to open their markets, educate their citizens, deepen the rule of law, and undertake macroeconomic reforms that lay the foundation for sustained and broad-based economic growth.

While we are proud of our successes, we will not succeed in achieving or sustaining progress toward prosperity as long as much of the Hemisphere's population

remains mired in poverty. While the *percentage* of the population living in poverty is decreasing, because of population growth the *number* of people in poverty is increasing, and the distribution of income remains more unequal in Latin America than in any other world region. Therefore, reducing poverty and increasing regional competitiveness is a key objective, and one that we are pursuing aggressively on bilateral and multilateral fronts. One example is the Security and Prosperity Partnership with our neighbors to the North and South.

One element that is often overlooked when we talk about our connection to Latin America and the Caribbean is the intensity of people-to-people ties. Hispanics are the largest and fastest growing ethnic group in the United States. The 2000 Census reported that 35.6 million people identified themselves as Hispanics, almost 13% of our population. And the Census Bureau projects that by 2010 Hispanics will be around 48 million, about 16% of our population. These communities sent back to their home countries more than \$35 billion in remittances last year. And those remittances are expected to continue to grow quickly.

Another indicator of the intensity of those ties is travel. The FAA estimates that total passenger traffic to and from the U.S. to Latin America and the Caribbean was 43 million trips last year, almost as many as across the Atlantic (48 million) and almost twice the number across the Pacific (24 million).

U.S. educational institutions have a powerful impact on the region through exchanges of students, teachers and professionals, and through institutional partnerships. And the cultural linkages within the Americas are also intense, one example being the growing popularity of Latin art and music in the U.S.

While we believe that our ties to the region remain solid and unshakable, we recognize that strengthening these bonds and solidifying democracy and economic growth are essential if we are to maintain this posture. One of the keys to this process—and where we hope to partner with the legislative branch—is in our trade agenda, and particularly the approval of the CAFTA–DR agreement.

We can send no better message to our Latin neighbors of the U.S. commitment to a strong and vibrant partnership than this free trade accord which will make our economic and commercial ties closer than they have ever been, and will solidify Central America's transformation toward democratic governance and free market economies.

Central America and the Dominican Republic make up the 2nd-largest U.S. export market in Latin America, behind only Mexico. CAFTA–DR will not only allow all parties to it, including the U.S., to increase prosperity through the opening of markets and increased investment flows, but it will also strengthen democracy in the region, encourage critical second generation economic reforms, and contribute to anti-corruption and poverty alleviation efforts.

Closer trade ties are a signal of friendship and commitment, and they serve our mutual interests. With Congress' support, approval of CAFTA–DR and conclusion of the ongoing talks with the Andean countries and Panama will make clear that the Hemisphere has no greater and more committed partner than the United States.

Increased Resources

Our commitment to the region's well-being is also reflected in our assistance programs. Most governments in our Hemisphere are trying to do the right thing; and that is why we are such active partners. The money we spend in our region enjoys great marginal return, preserving momentum for reform, supporting countries' efforts to achieve self-sustaining growth, and buttressing the political stability of nations. If the choice is between healthy economic partners or exporters of drugs and terrorism, it is obvious where we will stand. Furthermore, our assistance helps reinforce multilateralism directed at practical advances, with the countries of the region moving together as a community with shared values.

Our assistance helps countries develop the capacity to govern with accountability and transparency, to implement policies that allow economic freedom to flourish, and to invest in their people. These priorities echo the core criteria of the Millennium Challenge Account (MCA). President Bush's bold new initiative that substantially increases our aid flows. We are actively promoting economic and political reform through the MCA by rewarding countries that make the commitment to rule justly, invest in their people, and encourage economic freedom. Three of the poorest Western Hemisphere nations—Nicaragua, Bolivia, and Honduras—have been designated by the MCC as eligible to apply for assistance. We are hopeful that Guyana and Paraguay will qualify for the threshold country program.

Our public diplomacy efforts build support for U.S. policies by delivering a consistent message that presents the U.S. as an engaged and reliable partner, ready to work with our hemispheric neighbors to create a true inter-American community. In particular, we are expanding our outreach to our neighbors to strengthen demo-

cratic institutions by showing how greater access to the political process, a government free of corruption, and strict adherence to human rights can improve the lives of average citizens.

We will advocate for open markets and free trade and concretely address how a market economy can produce benefits for even the most marginalized segments of society. We are always working to better publicize U.S. assistance to the region and its impact on the lives of ordinary people. In short, we are constantly looking for ways to demonstrate the ways in which U.S. engagement adds value in the form of better governance, more economic opportunity, and an improved quality of life.

Summary

China's growing presence in the region reflects its growing engagement throughout the world. It does not necessarily constitute a threat to U.S. interests. Nonetheless, we remain keenly aware that China's growing economic ties to the Hemisphere includes a political dimension.

In the meantime, we will continue our historically strong and close ties in the Hemisphere and to advance our agenda by focusing on the pillars identified earlier—bolstering security, strengthening democracy, promoting prosperity, and investing in people. To advance this agenda, we will need the continued support of Congress for the initiatives that support our agenda.

Our challenge is to remain actively and effectively engaged in Latin America, and continue helping our friends transform their societies and extend the benefits of democracy and economic reform to all their citizens. China is a growing presence in the Western Hemisphere, but it is safe to say that the United States has been, and will continue to be, the long-term partner of preference—a preference not based on short term-term economic deals, but based on shared values and common long-term objectives. The Administration's policies aim to ensure that this remains so.

Mr. BURTON. Thank you, Secretary Noriega.
Deputy Assistant Secretary Pardo-Maurer.

TESTIMONY OF MR. ROGELIO PARDO-MAURER, DEPUTY ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF DEFENSE

Mr. PARDO-MAURER. Thank you. Mr. Chairman and Members of the Committee, thank you for the privilege of speaking to you today, and I would like to request, if it pleases the Chairman, that my remarks be entered into the record.

Mr. BURTON. Without objection.

Mr. PARDO-MAURER. Thank you.

I congratulate you for holding this hearing to address the influence of China in the Western Hemisphere. China's increasing involvement and interest in the Western Hemisphere make it appropriate and timely for this Committee to inquire what these developments mean for a region of such importance to the United States.

With few exceptions, the United States is the security partner of choice for the nations of the Americas. We should not take this for granted. It was not accomplished overnight or by shirking from difficult and, at times, thankless tasks. The friendly defense relations between the United States and the nations of the Americas are the product of the hard work of generations of civilian officials of the United States Government and of the men and women of our armed forces. Our goal should be to maintain these privileged and longstanding relationships.

The importance of the democratic revolution of the 1980s and 1990s in Latin America to sustaining our friendly defense relations in the Americas cannot be overstated. The virtual disappearance in this hemisphere of interstate military rivalry, so recently the bane of the continent, is one of the most cherished accomplishments of the democratic revolution.

By virtually any indicator, Latin America and the Caribbean today comprise the least militarized region of the world. This means that the United States is able to approach Latin America and the Caribbean as a—if I may quote, “economy of force region.” We want to keep it that way. The strength of our economic and cultural ties with our neighbors permits us to maintain a strategic posture that requires a relatively and historically small investment of military forces and security assistance.

This positive situation should be seen as one of the core strategic assets of the United States. Should another actor attempt to become a serious competitor for military influence and cooperation in the region, an effective response by the United States could become more costly.

Our relationship with each country is different, and is conducted on unique terms. Nevertheless, throughout the region our friendship is reflected in the entire range of military cooperation, operations, exercises, training, equipping, education, doctrine, even uniforms, and for lack of a better term, *elan*. We do not see China as directly competitive in these areas.

There is no evidence of Chinese interest in establishing a continuous military presence in the region nor is there evidence that Chinese military activities in the Western Hemisphere, including arms sales, pose a direct conventional threat to the United States.

However, we need to be alert to rapidly advancing Chinese capabilities, particularly in the field of intelligence, communications, and cyber warfare, and their possible application in the region. We continue to be concerned about China’s capabilities or activities in these areas. We would encourage other nations in the hemisphere to take a close look at how such activities could possibly be used against them or the United States.

China is still in the early stages of its quest for global influence. The rules of the game are evolving. To be helpful, the rules should help us distinguish clearly the things that are threats from the things that are not threats. They should help sort out diplomatic and commercial pursuits from strategic disputes. They should inject predictability into the system, create efficiencies in economies, and they should advert misunderstandings. Ultimately, good rule should help identify those areas in which we can and should cooperate with China and our regional partners.

The evidence suggests that in this hemisphere China is not unresponsive to United States sensitivities, but only when those sensitivities are made evident. This process is unfolding as we speak. It is not surprising, therefore, that our understanding of China’s role in the Western Hemisphere, and indeed elsewhere, is evolving, and that is why this hearing is so important, and why I commend this Committee on the spirit of inquiry in which it is held.

Our objective should be to ensure that China’s rise as a commercial power in the Americas opens economic opportunity for all, raises the standard of living of all our peoples, and ultimately strengthens the democratic institutions of what Scholar Michael Noval has called “this Hemisphere of Liberty.”

Our understanding would certainly benefit if this inquiry were to seek out the broader context of China’s activities in the Americas and pose the same questions being asked here today to our special-

ists from other important regions: Africa, the Middle East, Central Asia, South Asia, and East Asia.

I hope this testimony will help stimulate discussion and a better understanding of China's changing role in the world and its long-term implications for the United States. To sum up, I hope this testimony will also stimulate a discussion of how closely the national security of the United States is linked to the security of the hemisphere. Global, hemispheric, and homeland security are a continuum, not discrete spheres, and our security is ultimately tied to the advancement of economic opportunity and democracy. Indeed those interconnections are what inform U.S. policy toward the hemisphere.

Above all, I hope this hearing will challenge any complacent belief that our enduring vision of the new world as a land of freedom and opportunity for all can somehow be conceived in isolation from our strategic interest or our most cherished values.

Thank you, Mr. Chairmen.

[The prepared statement of Mr. Pardo-Maurer follows:]

PREPARED STATEMENT OF MR. ROGELIO PARDO-MAURER, DEPUTY ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF DEFENSE

Mr. Chairman and Members of the Committee.

I congratulate you for holding this hearing addressing the influence of China in the Western Hemisphere.

China's increasing interest and involvement in the Western Hemisphere make it appropriate and timely for this Committee to inquire what these developments mean for a region of such importance to the United States.

With few exceptions, the United States is the security partner of choice of the nations of the Americas. We should not take this for granted. It was not accomplished overnight, or by shirking from difficult and at times thankless tasks. The friendly defense relations between the United States and the nations of the Americas are the product of the hard work of generations of civilian officials of the United States Government, and of the men and women of our Armed Forces. Our goal should be to maintain these privileged and long-standing relationships.

The importance of the Democratic Revolution of the 1980's and 1990's in Latin America to sustaining our friendly defense relations in the Americas cannot be overstated. The virtual disappearance in this hemisphere of inter-state military rivalry---so recently the bane of the continent, is one of the most cherished accomplishments of this Democratic Revolution. By virtually any indicator, Latin America and the Caribbean today comprise the least militarized region of the world.

This means that the United States is able to approach Latin America and the Caribbean as an “economy of force” region. We want to keep it that way. The strength of our economic and cultural ties with our neighbors permits us to maintain a strategic posture that requires a relatively (and historically) small investment of military forces and security assistance. This positive situation should be seen as one of the core strategic assets of the United States. Should another actor attempt to become a serious competitor for military influence and cooperation in the region, an effective response by the United States could become more costly.

Our relationship with each country is different and is conducted on unique terms; nevertheless, throughout the region our friendship is reflected in the entire range of military cooperation: operations, exercises, training, equipping, education, doctrine, even uniforms and, for lack of a better term, *élan*.

We do not see China as directly competitive in this arena.

There is no evidence of Chinese interest in establishing a continuous military presence in the region. Nor is there evidence that Chinese military activities in the Western Hemisphere, including arms sales, pose a direct conventional threat to the United States or its friends and allies.

However, we need to be alert to rapidly advancing Chinese capabilities, particularly in the fields of intelligence, communications, and cyber warfare, and their possible application in the region. We continue to be concerned about China’s capabilities or activities in these areas. We would encourage other nations in the hemisphere to take a close look at how such activities could possibly be used against them or the United States.

China is still in the early stages of its quest for global influence. The “rules of the game” are evolving. To be helpful, the rules should help us distinguish clearly things that are threats from things that are not threats. They should help sort out diplomatic and commercial pursuits from strategic pursuits, inject predictability into the system, create efficiencies and economies, and avert misunderstandings. Ultimately, good rules should help identify those areas in which we can and should cooperate with China and our regional partners.

The evidence suggests that, in this hemisphere, China is not unresponsive to US sensitivities -- but only when those sensitivities are made evident.

This process is unfolding as we speak. It is not surprising, therefore, that our understanding of China's role in the Western Hemisphere, and indeed elsewhere, also is evolving. That is why this hearing is so important, and why I commend this Committee on the spirit of inquiry in which it is held.

Our objective should be to ensure that China's rise as a commercial power in the Americas opens economic opportunities for all, raises the standard of living of all our peoples, and ultimately strengthens the democratic institutions of what scholar Michael Novak has called "this Hemisphere of Liberty".

Our understanding would certainly benefit if this inquiry were to seek out the broader context of China's activities in the Americas, and pose the same questions being asked here today to our specialists for other important regions: Africa, the Middle East, Central Asia, South Asia, and East Asia.

I hope this testimony will help stimulate discussion and a better understanding of China's changing role in the world, and its long-term implications for the United States.

I also hope this testimony will stimulate a discussion of how closely the national security of the United States is linked to the security of the Western Hemisphere. Global, hemispheric, and homeland security are a continuum, not discrete spheres, and our security is ultimately tied to the advancement of economic opportunity and democracy. Indeed, these interconnections are what inform US policy toward the Western Hemisphere.

Above all, I hope this hearing will challenge any complacent belief that our enduring vision of the New World as a land of freedom and opportunity for all, can somehow be conceived in isolation from our strategic interest, or our most cherished values.

Mr. BURTON. Thank you. I think it was Jefferson that said, "The price of freedom is eternal vigilance." And the price of democracy, I presume, would likewise be eternal vigilance.

We have, down in Venezuela, Brazil, Argentina and other Latin America countries, a real threat to those fledgling democracies, and we see weaponry going in that is being funded by outside sources that may be used to help terrorists, narco-terrorist organizations like the FARC and the ELN that could destabilize other countries down there.

We have worked a long, long time, since the Reagan Administration, to change those regimes in Latin America to democracies, and most of us, I think, in the Congress, if not all, want to make sure that those democracies continue to flourish. When we see monies coming in from countries that are totalitarian in nature to countries that may become totalitarian states once again, it causes a great deal of concern.

You said that China poses no threat to the United States, and you said that is the least militarized area of the world. If those fledgling democracies down there become destabilized, and you see a tyrannical dictatorship once again emerge, do you not think that an awful lot of those people would head north to the United States,

and our immigration problems would get even more severe than they have been? And is that not a reason for us to be somewhat concerned about countries like Venezuela, Brazil and Argentina being changed from democracies to a more radical form of government?

Mr. PARDO-MAURER. Mr. Chairman, I would like to clarify my remark, and I defer to my colleagues, and I would like to give the State Department a chance to answer the question first, and then I will be happy to take a stab at it myself.

But what I said in my testimony, Mr. Chairman, was that there is no evidence that these activities pose a direct conventional threat to the United States.

Mr. BURTON. Well, I do not want you to beg the question. You know, if we have an extra million people coming across the border that we have to take care of—i.e., for education, welfare benefits, health benefits, and all that sort of thing—that may not be a military threat per se, but it is a very, very difficult economic problem for us to deal with. That is why stabilizing Central and South America has been such an important part of our foreign policy in the past, and I am very concerned—I do not know about my colleagues—but I am very concerned that these countries that have experienced economic problems down there, Venezuela, Brazil and Argentina, now have some leftist leaders who are getting support from China and other countries, who could lead us into a destabilizing situation which could cause those fledgling democracies to go by the wayside and thus create a title wave of people coming from South and Central America back up to the United States.

I would like to know long range what the State Department and you feel about that.

Mr. NORIEGA. Well, Mr. Chairman, I think the implications of China's engagement in the region do not necessarily point toward instability in the region. But it is important for us to note that there is an abiding commitment in this region not only for market policies, but to democratic forms of government, and those two things go hand-in-hand because as they do, they build more just and stable societies.

We have seen—as a matter of fact, as you noted—some left-of-center leaders elected in Latin America, and they have nevertheless pursued in most cases rather orthodox, macroeconomic policies because they understand that those market policies are what is going to generate economic growth upon which they can base social reforms and address poverty.

So, in point of fact, democracy has been vindicated inasmuch as it is being used by people on the left to pursue their objectives, and the free market has been vindicated inasmuch as those policies are also being implemented by governments across the political spectrum.

We, as a matter of fact, see a couple of governments in the region that are the exceptions that prove the rule, a couple of governments that are not democratic or are hostile to the United States that are essentially, as I said, exceptions. By and large we have very good relations with the Brazilians, the Uruguayans, the Argentines. Across the political spectrum we are able to work with these leaders.

But you identify the essential point, which is, our interests are affected by stability in the region, and that is why we have to have a integrated policy that encourages political stability and economic growth.

Mr. BURTON. Let me cut to the chase. Do you think that China's influence in the region down there is a threat to any of these fledgling democracies?

Mr. NORIEGA. I would say, first and foremost, I think one of the points we want to illustrate is that China's influence in the region is minimal today.

Mr. BURTON. Well, it is growing. It is growing.

Mr. NORIEGA. It is growing and it has been, so far, of an economic nature, and we understand that we do not share values with China by any means. But I would suggest that the countries of the Western Hemisphere, with only one exception, by and large share our values and our view of the world and not China's.

Today, I believe, as my colleague has said in the case of the military engagement by China in the region, that it does not represent a destabilizing effect in the Western Hemisphere.

As a matter of fact, to the extent that our natural economic partners in the Western Hemisphere can tap into the world's fastest growing and largest economy in the world, that accrues to their benefit in terms of generating income in their countries from exports. It also benefits us inasmuch as it produces economic growth and helps fuel economic growth.

Mr. BURTON. I have one more question, and then I may ask more after Mr. Menendez and my colleagues ask theirs. China's diplomatic influence in the region is of concern. The Organization of American States (OAS) has granted China formal observer status. The OAS says 35 members, including the United States and all 12 of the countries confirming diplomatic relations on Taiwan, Beijing strongly objects to Taiwan's efforts to join multilateral organizations and forums, and I know that they object to OAS observer status for Taiwan.

What do you think the likelihood is that Taiwan will be granted observer status for the meeting in Fort Lauderdale this June, and are we actively supporting that?

Mr. NORIEGA. Well, Mr. Chairman, under longstanding rules of the OAS, only states can be observers to the Organization of American States, so it was on that basis that Taiwan was not able to apply for observer status.

However, the United States has advocated for an active role for Taiwan in the OAS in terms of supporting some of the programs of the organization, the technical assistance programs, making contributions to the OAS, and so we do support that. But under the rules of the organization Taiwan is not eligible for participation, Mr. Chairman.

Mr. BURTON. I would just urge that the United States take whatever steps are necessary to make sure that Taiwan is a participant. They have been an ally and friend of ours forever, and the minute you start excluding Taiwan from this kind of an organizational meeting or any organizational meeting to the benefit of Mainland China, what you do is, I think, you encourage further action by Mainland China to gobble up Taiwan in an aggressive fashion, and

our policy has been for a long, long time that this is something that should happen over a period of time in a non-aggressive way. And I think it is important for the United States to be very aggressive in this endeavor.

Mr. Menendez.

Mr. MENENDEZ. Thank you, Mr. Chairman. I want to thank the Assistant Secretary and the Deputy Assistant Secretary for their testimony.

Let me ask you a question: Venezuela recently made a very large arms purchase, did they not, from Russia or at least is in the process of finalizing?

Mr. NORIEGA. It is in the process of finalizing the purchase of AK-47s, or AKs, I am sorry.

Mr. MENENDEZ. One hundred thousand of them.

Mr. NORIEGA. One hundred thousand, that is our understanding.

Mr. MENENDEZ. And also, as I understand, MIGS as well?

Mr. NORIEGA. There has been some talk about the purchase of MIGS and other aircraft. They have effected the purchase of helicopters. Perhaps my colleague wants to be specific.

Mr. PARDO-MAURER. That is right. It is uncertain at this time what the status of purchase of aircraft is. We also understand that there is interest in acquiring the technology or even the equipment to produce ammunition, specifically the 762 times 39 millimeter rounds in the region from Russia. You asked specifically about Russia.

Mr. MENENDEZ. Yes, from Russia. But my point is, do we have a ballpark figure on how much that purchase would be if it were to be effected? Do we have any sense in the Defense Department?

Mr. PARDO-MAURER. In terms of the cash outlay, no, sir, I have not seen, but that may exist. And if it is, I would like permission to include it in the record.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MR. ROGELIO PARDO-MAURER TO QUESTION
ASKED DURING THE HEARING BY THE HONORABLE ROBERT MENENDEZ

Venezuela signed a contract with Russia on May 17, 2005 to receive 100,000 Kalashnikov AK-103 Assault Rifles, at a cost of \$54 million USD.

Mr. MENENDEZ. We would love to have your response. As you know, the Venezuelans have been raising issues about the blocked export of supplies for a fleet of 24 F-16 fighters that were purchased from the United States, so instead they go to Russia. They are in the midst of purchasing MIGS. They are in the midst of purchasing helicopters. They are in the midst of purchasing 100,000 AK-47s. You have to have money to do that. Obviously, Venezuela has a lot of money.

But then China comes along and it signs agreements to invest over \$400 million in developing Venezuelan oil and gas reserves. And while there is not a direct connection obviously, when an entity like the People's Republic of China makes such an investment—for its own needs, obviously, in terms of oil—but makes such a huge investment in Venezuela, it gives Venezuela and countries of similar mind the wherewithal to do some of what seems to me is not a question of national security.

So when we say yes, China has recent engagement in the hemisphere, and yes, China is not an immediate threat to the United States in this hemisphere, one thing to admire about the Chinese people is their cultural propensity to take the view of the long term, something that we have, I believe, a difficulty with in general, and specifically in the Western Hemisphere.

If the Chinese continue to pursue engagement, and even if only a significant fraction of their \$100 billion becomes a reality in terms of actual dollar investments, you have, it seems to me, when their monies are placed in specific entities—specific countries and for specific purposes, the beginnings of some very difficult circumstances for the United States.

So you know, while some may view this hearing as premature, I view it as sounding an alarm before we allow it to get out of hand.

I also agree with, for example, the article by Andres Oppenheimer written on February 27 where he said:

“The increased interactions with China may have a negative consequence of slowing down the progress made in Latin America in combatting corruption, human rights abuses, and respect for intellectual property.”

He goes on to further say:

“One U.S. official was quoted as saying that China is going to drive back the transparency and active corruption agenda of Latin America back to the seventies.”

Do we fear that as an element of China’s engagement in the hemisphere? Do we have any concerns that a significant human rights abuser, that uses its power in international forums to not permit issues of human rights to be pursued against it, is now seeking to influence other countries in those forums? Are we concerned about the consequences in the hemisphere in that regard?

Mr. NORIEGA. I think that is a very good point, Congressman. It is something that we do need to be very aware of. By saying today that the engagement is minimal does not mean that it should be minimized inasmuch as it is growing, and they are looking to use their influence diplomatically. We, in many cases, do not share common views with China in the international fora, so that is an area that should be kept very much in mind.

In terms of the point on whether investment in Venezuela’s oil sector helps them purchase arms, it is a good point although Venezuela has \$25 billion in reserves right now, and their best customer for oil is the United States, and I think that the Chinese engagement—

Mr. MENENDEZ. But we are a customer of consumption. The Chinese investment is in production capacity.

Mr. NORIEGA. And we invest to an extraordinary degree. I would say the largest—as a matter of fact, I would say American companies actually produce most of the oil, to get it out of the ground and pump it out of the country in Venezuela today is produced by American companies.

Mr. MENENDEZ. Let me ask you one other question if I may. Again, regarding the statement about the Chinese military involve-

ment in Latin America not being of major concern to us, Brazil and China are partners in a satellite program and in positioning to sell Beijing uranium and uranium-enrichment technology. What is that about, and do we have any concerns about that?

Mr. NORIEGA. Thank you very much. We think it is important. I do not have anything specific on the satellite deal, sir. I can get you some details on that. But we do think it is important that Brazil continues to abide by its commitments on nonproliferation of nuclear technology, and have noted the need on the part of Brazil to stay on the right side of that bright line in the development of its own technology.

Brazil plays an active role as a matter of fact, chairing the IAEA's—one of the governing boards of the IAEA, and so we have emphasized that they may even be responsible actors in this area. That is what I have on the uranium issue, but I can get you additional details on that.

Mr. MENENDEZ. Let me just give you some information. President Uribe of Colombia just signed an agreement today with China. I am not sure you know about that, but they just signed it, and they are also working on getting financing for a pipeline to carry Venezuelan oil across Colombia to the Pacific where it can be shipped to Asia, i.e., China.

So the Chinese are working beyond just consumption. They are now going to be working on a pipeline, financing it to run it across Colombia to the Pacific so that Venezuelan oil coming from Venezuela can be shipped to China.

Mr. NORIEGA. It is not something to be minimized, sir. I was aware of that.

Mr. MENENDEZ. And the thing is the United States—pardon me just 1 second, I will yield to my colleagues—but I had people from Latin America and Central America come to me about 3 years ago. I talked to them about the United States being involved in a pipeline to go across either Nicaragua or down that area where there is a very small land mass to go across, and that it would be to the benefit of the United States to be able to get oil to the east and west coast in tankers.

I talked to our Energy Department about it, and I talked to the defense people about it, and nothing ever happened. And now we find out today that China is going to do it. All I can say is it would have been economically the right thing for us to do, and now I am sure this is going to accrue to the benefit of the Chinese and Asian countries. And I just think it is unfortunate that we were not a little more aggressive in moving in that direction.

Mr. BURTON. Who is next here? Mr. McCaul?

Mr. MCCAUL. Thank you, Mr. Chairman. I want to thank the witnesses for their testimony and thank the Chairman for his eloquent remarks. I agree wholeheartedly that while China is emerging now as an economic superpower, it has an historically questionable track record when it comes to the area of human rights, proliferation, espionage, when it comes to intellectual property, unfair trade practices.

A comment was made that national security is linked to the stability of the region, and I could not agree with that more. I am concerned about China's influence. When we talk about spreading de-

mocracies in the Middle East, which we are being somewhat successful at now, I am concerned about the influence of China in our own back yard and having a negative impact on the spreading of democracy, and I know that question has been entertained, so I will move on, but that is of concern.

In addition, I believe China is having a negative impact with respect to our immigration policies in the sense that we cannot compete with such low-paying jobs out of China, and therefore they are competing with countries such as Mexico directly. That is having a negative impact on immigration.

Having said all of that, I have two questions. One, and this is for Secretary Noriega: What positive impact, and I hope it will be positive, will the Central American Free Trade Agreement have with respect to the United States and China, and how does China view CAFTA?

And number two—I did spend a good deal of time at the Justice Department. I have seen China's espionage practices firsthand. They are very good at it. Secondly, they are good at breaching cyber security, and over the years we have had a number of attacks on U.S. computer networks and attempts to breach secure computer networks of the United States Government. Some of these attacks have been traced to Asia. What, in your opinion, would the fact that China is developing a significant presence now in the Western Hemisphere, what impact would that have on our security with respect to our computer networks in this country?

And I guess the second question probably would be more directly pointed to Secretary Pardo-Maurer.

Mr. NORIEGA. Thank you very much, Congressman McCaul. It is extraordinarily important that the United States recognize the Western Hemisphere as its natural market vis-a-vis Chinese trade. In point of fact, it is important that the United States companies get even more into this region and do business, and trade with these countries. Seventy percent of our OPEC portfolio in the world is United States investment in Latin America, so we are pushing into that region, and I, as a matter of fact, met recently with the leadership of Ex-Im Bank to say, let us make a conscious effort to increase that precisely to make it possible for American business to be competitive in this region of the world, and precisely to ensure that we are appropriately cultivating energy markets.

There is a pipeline across Panama that carries energy, and we ought to put a few more in there because energy is an important aspect. We are developing a strategy in the Western Hemisphere where we can, in point of fact, be self-sufficient in energy just within the Western Hemisphere. So this is a very important area for work.

The CAFTA-DR agreement, we believe, is a very important initiative. This is a region where we have invested an awful lot politically and economically over the years, and it is 33 million people with whom we trade—more than we do with India and Russia combined—and it is a growing market. They are democratic countries with some problems integrating together, and are now building a bridge to the United States to generate income and jobs so people can stay in Central America and work in Central America and prosper in Central America.

The other important thing is that American companies are better employers. If you go into these regions and you look where the labor rights violations are, they are not by American companies. They are by other countries' companies from other parts of the world. So we also inculcate those values.

So we believe that CAFTA is important economically to the United States as it will open up markets in Central America for American products. Eighty-five percent of Central American products come here already with no tariffs, and what we are trying to do with CAFTA is, in point of fact, level the playing field so that the United States can be even more competitive in that market. Thirty-three million people that want to do business with us. It is important on security policy, on immigration policy, on economic policy, and on energy. It is solidifying these economic relations and consolidating governments in countries at home and close to home.

Mr. BURTON. Thank you, sir. Do you have another question?

Mr. McCAUL. I am sorry. The question about the cyber security.

Mr. BURTON. Oh, sure, sure. I am sorry.

Mr. PARDO-MAURER. That is an excellent question, and I believe some of the Members were briefed in a separate forum on some of those issues and their potential with greater specificity, and I would certainly be happy to arrange a briefing for Mr. McCaul on that. I think that would be the best forum to discuss that sort of issue.

If I can take a shot at quickly responding to several things that were said by the Members. I am very gratified to see from all of the bench that there is a very strong sense of how closely democracy development and security are interconnected, and I wish to assure you that that kind of activity is at the heart of how we approach the region. You simply cannot separate them.

From the point of view of the ordinary citizen in that part of the world, I would hazard to guess that the things they see as most threatening to their democracy are poverty, corruption and violence. I think those are what create the breeding ground for problems such as drug trafficking and anything else you wish to name that we, too, view as a concern.

The key to solving those problems of corruption, poverty and violence, I believe, is more democracy, more accountability, stronger institutions, and closer cooperation and trust amongst the nations of the hemisphere. That is what our policy seeks to strengthen.

There is such a thing as the inter-American system, and it has many institutions from the OAS to the so-called confidence- and security-building measures that have been negotiated at countless meetings which are about transparency and arms acquisitions, and defense intents.

We need to work with our neighbors in the region to strengthen those institutions, and I think we should encourage China and any country that wishes to work with the countries of this hemisphere to work within that system. We certainly have tried to act as responsibly as we can from the United States within the inter-American system, and that has been the labor of successes by partisan policy of successive Administrations. Thank you, sir.

Mr. BURTON. Mr. McCaul, thank you. Mr. Delahunt.

Mr. DELAHUNT. Thank you, Mr. Chairman.

The information that you just provided, I think, underscores my initial observation about lack of engagement. There is absolutely no reason that through the trade development agency of this country, this Administration, that we could have worked with those countries that are impacted to provide the construction of that pipeline. That is what I am talking about.

You indicated you brought it up 3 years ago, and yet today we have the Chinese engaging in a contract to construct the pipeline. That is my point. That is the letter of engagement, a combination of assistance and loans, whether it be through the Ex-Im Bank, whether through the TDA or OPEC, that is what we are talking about. And if that does not happen, we are going to see a continued erosion of the attitude that people all over Latin America have of the United States.

One looks at the polling data, and it is disturbing. They are losing confidence in democracy, and it is up to the United States to play a role, and those polls, by the way, are taken by Americans, by preeminent American pollsters. So we cannot just sit here and sugar-coat everything and say all is well when it is not. I has been far too long that we have ignored Latin America.

In addition, one only has to examine the statistics in terms of the disparity of income and life in Latin America, and what we see is a growing chasm, if you will, that sends a message to the new democracies that democracy is not benefitting the entire community, the whole society of these nation states, and only a few are receiving benefits from it.

Let me ask a question of the Deputy Secretary. According to the Congressional Research Service, I am talking about the transfer of military, China accounted for 1.8 percent of the total value of arms transfer agreements with Latin America countries in 1996 through 1999, and 0 percent over the years of 2000–2003. Do you agree with that statistic?

Mr. PARDO-MAURER. Sir, I am not familiar with that particular statistic or that source. It sounds roughly in the ballpark. I would hasten to add it is very difficult to assign a dollar value to equipment—

Mr. DELAHUNT. This is a percentage of the total value of arms sold in Latin America.

Mr. PARDO-MAURER. Yes, sir. It is very difficult to put a dollar value on equipment and training that come from a non-market economy, but having said that, I would not dispute that those figures sound as if they are in the ballpark.

Mr. DELAHUNT. And it goes on to say that in that same period of time from 1996 to 1999, China accounted for a little more than 2 percent of the total value of arms deliveries to Latin America and 0 percent from 2000 to 2003. I mean, no percent whatsoever. This is according to the Congressional Research Service in a memorandum requested by the Chair, and it is dated March 24, 2005.

Mr. PARDO-MAURER. I might have misheard. From 2000 to?

Mr. DELAHUNT. 2003, there was no deliveries of arms to all of Latin America from China during that period of time according to this memorandum that was prepared pursuant to a request by Chairman Burton.

Mr. PARDO-MAURER. I will have to follow up on that, but that does not sound right to me.

Mr. DELAHUNT. How much does the United States Government provide?

Mr. PARDO-MAURER. Sir, I would have to ask you for which time period, and I will be happy to provide that information in—

Mr. DELAHUNT. Last year, the last 3 years, what is the total value of arms deliveries to Latin America countries from the United States.

Mr. PARDO-MAURER. I would like to provide that information on the record, sir.

Mr. DELAHUNT. And if I could have one more question, Mr. Chairman. I will address this to Secretary Noriega: How does the Administration view the People's Republic of China, as an adversary, a potential adversary, as a competitor?

Mr. NORIEGA. As I noted at the opening of my testimony, Secretary Rice has recently said that we welcome the rise of China as a prosperous country in the world and an emerging power in the world, and we have found common ground with China on a number of disputed issues.

Having said that, it is very clear that we have profound differences in terms of China's human rights policies and some of its policies elsewhere in the world. But it is fair to say that we engage China economically and politically from—

Mr. DELAHUNT. I understand you said that. But in answer to my question, how would you characterize China in terms of this Administration?

Mr. NORIEGA. Right. Specifically, I think that the United States recognizes the Chinese as a competitor on some issues and a partner on others, and I would also note, if I may return to another point you made unless you have another question.

Mr. DELAHUNT. No, I have another question. I have to yield. I am getting the high sign. Thank you, Mr. Chairman.

Mr. BURTON. I love you, Mr. Delahunt, but—

Mr. DELAHUNT. I understand.

Mr. BURTON. Thank you sir, the Silver Fox.

Ms. Harris.

Ms. HARRIS. Thank you, Mr. Chairman. Thank you all for being here today. Secretary Noriega, thank you for all of your efforts in Latin America over the years. I have enjoyed working with you, and thank you for your support. I have a couple of questions.

One, just in terms of where China is and whether it is a threat or not, I agree with Mr. Menendez. I mean, certainly the Chinese take a long view, but they also go about their type of assertion of themselves and other nations in a completely different way. They do not try to assert their culture. They do not try to change. They just invest economically, whether it is in hospitals or school, and in this case, and in the case of Grenada, I think it was, diplomacy, where they are going into the peoples' passions and rebuilding a stadium for cricket when the people there on that island had lost everything.

I do worry to some degree, I mean, as a matter of competitiveness, but really to the point, I think it really is much more a matter of our philosophy, if you will. I was one of the original sponsors

of the Millennium Challenge Account. I mean, certainly I think it is another way to look at the way we offer foreign aid. If countries subscribe to the rule of law, sound economic policies and investing in their people, then they are worthy of that. And in Latin America, these countries will turn on a dime to seek that kind of aid. Unfortunately, the way the formulas were assessed really very few nations in this region got it.

My first question, number one, is really: How do you see, more importantly than even China, where are we going with our policy toward Latin America? They have done the hard work. They have democratized. But if those fiscal benefits do not follow, the economies do not follow, then that kind of poverty that is bred can be a seed bed for terrorism or an opening for nations that are going to invest largely, such as China.

So my question would be to you right now, you know: If we are going to be competitive, how are we investing in people? How are we measuring to, say, China with regard to that investment?

And then secondly and specifically, I would also like to know, because I am not aware of this: How specifically are we faring as well in the Caribbean and Central America?

Mr. NORIEGA. Well, in terms of economic assistance, it is important to note that the United States is the largest donor, I would suggest, to every one of the countries in Latin America and to the region as a whole, far outstripping anything that China would offer.

As I noted, much of what they do is in the form of loans and it is extractive, and it is not really investing in changing the reality of these countries in any appreciable way. It does not support—I am sorry.

Ms. HARRIS. I just wanted to ask you, at one point President Hu mentioned in one of his visits that maybe their investment over the next 10 years might amount to \$100 billion.

Mr. NORIEGA. \$100 billion over a 10-year period, which would put them in 10 years where we were in 1970, because we are at \$300 billion today, and it is growing, and it is very clear that the United States is a preeminent partner and we are not just looking to take advantage in some kind of mercantile arrangement with our neighbors in the region.

We invest in human rights, in democracy, in the rule of law, in improving courts, and in anti-poverty programs, in feeding people, and to help them, more importantly, to feed themselves by retooling their economies and taking advantage of economic opportunities such as the trade agreements that we want to extend in CAFTA-DR, which is extraordinarily important because it generates income, and it expects certain things in terms of transparency that are good not only for American business that want to do business there, but for people across-the-board who want to start a business but have not been able to do so because of bureaucracy or corruption or other obstacles.

So our policy is an integrated principled policy that helps change the reality of the people in this region because we value the relationship. We share different values and different principles, and what is important to note is that Latin Americans understand that.

We can always do more in terms of assistance. That is very true. But we do use—for example, the Millennium Challenge Account—to reward those countries that are doing the right thing. Right now we expect that Honduras and Nicaragua and even perhaps Bolivia can be among those first countries in the world that sign an agreement—

Ms. HARRIS. Unfortunately, so few qualify because it is based on nations, not on regions, and the poverty is massive in so many of those nations, and yet because of the great disparity of wealth, they are not qualifying. So prior to 9/11, we really had focused and said to Latin America, this will be the century for the Western Hemisphere. And so I think they are all waiting and hopeful, and we are all anxious, I am certain, on this Committee to really see a real strong direction from the Administration.

Mr. NORIEGA. Sure.

Ms. HARRIS. And more discussion publicly from the top levels and saying how important Latin America is to the United States.

Mr. NORIEGA. Right.

Ms. HARRIS. Sharing cultures and families and histories.

Mr. NORIEGA. I think it is fair to say that you will see—and the President recognizes this, ma'am—an even higher profile. We will continue to engage. It will not be throwing money at a problem, but in an integrated way, political reforms, trade agreements and all, opening economies up and having sustainable growth.

And I will commend the Subcommittee Chairman for the profile that he gives these issues by holding these types of hearings, and I thank you for your participation.

Ms. HARRIS. Thank you, Mr. Chairman.

Mr. BURTON. If we need to make some adjustments in that type of legislation in one of those accounts, maybe we could work together to do that and help stimulate the Administration to move quicker.

Mr. Faleomavaega. I always have trouble with that. Why is that? Faleomavaega.

Mr. FALEOMAVAEGA. Call me John Wayne, Mr. Chairman. That will be all right. [Laughter.]

Welcome again, Secretary Noriega, and Secretary Pardo-Maurer. Thank you for your testimonies this afternoon.

If my numbers are correct, please correct me, Secretary Noriega, I think the population of our country is about 5 percent of the world's population of 6 billion, and yet we consume 33 percent plus of the world's energy resources, and from that context we have to depend on Canada, Mexico, Venezuela, and Saudi Arabia for our oil supplies.

Recently China, as you mentioned earlier, has announced its efforts in trying to establish a similar source of supply for its 1.3 billion consumers, I suppose, with Venezuela. But India also is hoping to provide a similar type of contractual relationship for its oil needs with Ahman. So we have got sort of a mixed bag here of two democracies with two non-democratic countries, I suppose, trying to find this. I was wondering and wanted to ask you: If you have 1.3 billion people to feed, do you think that its a natural course of action on the part of the China leadership to seek sources wherever

they could find to provide for this tremendous amount of a need for its people, to provide for their needs?

I am trying to see that—ask you that maybe are we overreacting to the moves of China to do this, or is it necessary because they have 1.3 billion people to provide for?

Mr. NORIEGA. It is far beyond my place to say that Congress is overreacting. And as a matter of fact, I actually think that it is good to shed attention on this emerging issue, and I think that the points that have been made here are valid, but yours is a valid point too.

Twenty-four percent of what China imports from Latin America and the Caribbean is in the form of soybeans and fats and oils. Minerals, fuel and oil constitute only 5 percent of what they are importing from Latin America and the Caribbean. That does not mean that we should not be aware of what they are doing in terms of strategic investments in the energy sector, but they are fueling a vast economy, and they are looking for sources of food and fuel to sustain their growth.

Mr. FALEOMAVAEGA. We recently experienced some problems with the network of our intelligence system in some countries in the Middle East, and I wonder, and not being presumptuous in terms of Chinese presence in the Western Hemisphere, but are we pretty good in our intelligence system throughout the Western Hemisphere, both Central and South America, if we really have to depend on real hard facts and information to make absolutely certain that our national security is not at risk, or that there is no half truths or half information given not only to the Congress but to our national leaders to make proper decisions?

Mr. NORIEGA. Well—

Mr. FALEOMAVAEGA. I am jumping ahead of the game here. I just want to—

Mr. NORIEGA. Sure, and I cannot talk in terribly much detail on this score, but this is an area where we asked the community for reporting, and to identify this as a priority, and put the resources behind collecting information so when we have policymakers in Congress, we also have the information that they need to judge, to size this up. But we are pretty confident in the trade data and the rest of it that we are sharing with you.

I should caveat that when China signs an agreement that says it is going to do \$400 million, let us see the money, whether the money comes through or whether they follow through with the investment. There is a lot of paper flying around the region these days in terms of agreements, but they do not always bear fruit.

Mr. FALEOMAVAEGA. There may be some simplistic thoughts or people may even laugh at this, but China also has tremendous presence in the Pacific region, especially where there is direct relationship with a lot of these Pacific island nations, and at one time I asked a couple of the top leaders of these island countries, or for that matter I asked the Chinese leaders, I said, "What are you doing here? These islands have no oil. They have no minerals. Why are you here?"

And they have full Embassies with Ambassadors with the same accreditation as would any other foreign country. And the response

I got from the Chinese Ambassador was, "We treat small nations the same way we treat big nations."

In fact, I recall the head of state in one of the island nations was given the same treatment that President Nixon got when he went to China, and those countries are not even a half a million population.

As would be the conventional view, I suppose, in our conventional policy of what is in it for the U.S. What interests do we have before we even want to deal?

You know, some of these countries are not even on the map, or the radar screen as far as our national policies are concerned, but there is a cultural twitch here that I want to share with you, Mr. Secretary.

Chinese have a very different attitude, perception of how they treat small countries as you would big countries like the United States. And I wonder, I wonder if this is something that we ought to look into by way of their sincerity on how they treat countries truly as friends regardless of whether they are democratic or non-democratic countries, and I just wanted to pass that observation on to you, and wonder if the same thing is also true in their treatment of countries among the Central and the South American countries.

Now, the Chinese passed the Anti-Secession Law.

Mr. BURTON. The gentleman's time has expired.

Mr. FALEOMAVAEGA. Oh, I am sorry.

Mr. BURTON. No, go ahead, you can sum up.

Mr. FALEOMAVAEGA. I just wanted to make this observation. Article 8 provision of this Anti-Secession Law that has caused a lot of consternation, not only the hype of the media and all of that, but I noticed in all the countries of the world that China is very, very serious in its treatment of Taiwan. And if there is any inclination on the part of Taiwan that they want to be separate and to be independent, I was just curious if our friends among those countries that do recognize Taiwan got the message.

Thank you, Mr. Chairman.

Mr. BURTON. You are welcome. I do not know if that requires a response or not.

Mr. FALEOMAVAEGA. Well, Mr. Chairman, it does not require a response.

Mr. BURTON. I did not think so.

Mr. Mack.

Mr. MACK. Thank you, Mr. Chairman, and thank both of you for being here today. I was looking forward to this meeting because I believe that Chavez is the single largest threat to freedom, security and prosperity throughout Latin America, with access and control of vast oil reserves. Chavez has more financial resources than Fidel Castro, and there is no doubt that Chavez is a destabilizing influence in the region.

I have been told that Venezuela's intelligence and security forces have been contracted out to Castro's Cuban intelligence and security officers, and I just wanted to know if that is correct. Am I correct in what I have been told?

Mr. NORIEGA. Without going into much detail, I think that is a pretty fair characterization. I think, as you see the decline of the

Castro regime, this intelligence apparatus is going to be attaching itself to another host.

Mr. MACK. And then as a follow up, we are all aware of the increasing ties between Cuba and Venezuela. Is there any evidence that China is providing military intelligence or economic support to Cuba and Venezuela?

Mr. NORIEGA. The relationship with Venezuela seems to be more or less on an economic footing, not so much intelligence or military assistance.

I will ask if Mr. Pardo-Maurer has additional information on that.

With Cuba, there is terrific economic support to the Castro dictatorship by the People's Republic of China, and there is some question about what they may be doing in the intelligence area too.

Mr. BURTON. If the gentleman would yield just briefly, and I will give you more time, I think Mr. Menendez made a very valid point awhile ago when he was talking about China investing and buying an awful lot of oil and other products from Venezuela. Money is fungible. And so the Chinese may not be directly subsidizing military equipment and technology to Venezuela, but the fact is they are giving them an awful lot of money for their oil and for other things that they are investing in down there, and that money then is being used to purchase 100,000 AKA-47s, and other military paraphernalia.

So I think it would be incorrect to say that the Chinese investment down there is not augmenting the military build-up in Venezuela and Chavez's regime, and I thank the gentleman for yielding.

Mr. MACK. Well, would you like to make a comment?

Mr. PARDO-MAURER. Well, I fully agree with my colleague's characterization of that relationship between Cuba and Venezuela.

In response to an earlier question by Congressman McCaul, I had offered the possibility of perhaps providing more information in another forum, and I would like to extend that invitation to you as well.

Mr. MACK. Wonderful, we will take you up on that.

Mr. PARDO-MAURER. Thank you.

Mr. MACK. As a freshman Member, I will take all the meetings I can get.

Mr. PARDO-MAURER. Thank you, sir.

Mr. MACK. But I guess the point though is that if China is—if you follow the trail, if China is supplying to Cuba, you know, resources and military intelligence, and then Cuba is also then participating with Chavez in Venezuela, I would say that there would be a direct connect. Am I correct in my thought process?

Mr. NORIEGA. I do not know if you have to work China into the cycle. I think that it is apparent that the Cubans provide significant security support, intelligence support to the Venezuelan Government, and the Venezuelan Government provides oil, it is subsidized maybe, so it may not paint the complete picture. I think it runs into hundreds of millions of dollars a year to benefit the Cuban economy.

And then on the other hand, Cuba has now sent tens of thousands of doctors and other workers to Venezuela to where today

the Cuban people are saying, "Where did all our doctors go?" So now you have the people of Cuba who have been exploited and abused and denied their basic right who are now giving up their doctors to a political project of Castro's in Venezuela, and there is an economic relationship as well.

Mr. PARDO-MAURER. I would also like to add that I do not necessarily see why there is a requirement for a cutout in terms of the relationship between China and Venezuela. To cite one example, a few weeks ago it was announced that the Venezuelan armed forces would be switching over to the Chinese olive-drab uniform, and that certain elements of Chinese doctrine would be incorporated into the Venezuelan armed forces. What they are, I do not know. It may be that they themselves do not know at this time—hard to say. But surely that is an indicator that a direct contact already exists and that it is having some influence.

Mr. MACK. Mr. Chairman, I would just add at the end here, you know, if the region destabilizes because of the influence with Cuba and China, it would have a ripple effect across the entire—not just the Western Hemisphere, but across the globe, and so I would hope to be able to work with you, Mr. Chairman, on any ideas that you have and moving forward on how we can continue freedom and democracy through the Western Hemisphere to in most cases protecting our own citizens here at home.

Mr. BURTON. Thank you, Mr. Mack. We anticipate taking a trip down to Venezuela at the end of May, and we want to take as many Members of the Subcommittee as possible on that trip. We hope to meet with Mr. Chavez, President Chavez, and get a firsthand view of what his long-term goals are.

Let me see, who is next here? Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman, and I just think listening to the last line of questions that sometimes maybe we could be our own worst enemy. I think that I prescribe somewhat to what Ms. Harris indicated in that our not being involved in the Western Hemisphere for a long period of time, and not caring about others' cultures and trying to utilize a stick, I guess, that if you do not do it our way, the way it has to be, that then we fall out, and it causes some terrible, I think, public foreign policy.

For example, I mean, we just used the case of Venezuela for an example. When I first arrived in Congress, I know that at that time China was not in Venezuela, and in fact Venezuela was reaching out trying to get more attention from the United States, and then we, you know, talk about democracy and people going to vote and to polling places and how responsible that is, and that is what, you know, the key is, and that we have a government where there was a coup d'etat, or an attempted coup d'etat. And if we were ready for democracy, et cetera, it seems as though we would have said—at least that we would condemn the coup d'etat, but we did not do that.

And now what has happened as a result, you know, we have—because you can make a friend, but you can make an enemy also, where you have a situation where another country can try to take advantage of our lack of activity in our region that is very close to us. Now all of a sudden after the fact we are worried and concerned. I think we should have looked and had a long-range vision,

or again, here we go again, maybe we had bad intelligence at the time similar to what we have had in other places, and maybe it is an intelligence mistake.

So maybe we are creating a new—I do know from what I heard—new acts of evil in the Western Hemisphere along with China. But my concern is that we engage with these countries who are right next to us, and engage in a manner so that, in fact, they view us as a friend.

I recently read a book called *The Lexus and the Olive Tree*, and what it basically was talking about is, if you try to uproot an olive tree or the roots of a community, then therefore you could be putting yourself in a position where you are creating an enemy because people want to still be who they are. They do not want to change who they are and what their heritages have been, but they also want to be part of the globalization, the lexus, part of the new work, the new society, and we have got to figure out a way as a country to have a match to intermingle both of them.

And so now we have China lurking off the shores of the Western Hemisphere, and from what I am hearing, I am not sure whether that is a treat or a threat, whether that is a good thing or bad thing, and exactly how or what our terms or what our next move is as a result of that.

Let us go, for example, dealing with the oil. Yesterday's *Wall Street Journal* article said Asian oil refineries are near full tilt. It suggests that Asian's energy needs such as China are putting a strain on global supplies and prices. They solicit markets typically utilized by the United States such as Venezuela.

So just using that, what is your take on an article like that, or how are the energy needs of developing nations increasing around the globe, what are the long-term solutions for the United States' energy needs, and how critical is the Western Hemisphere? And that is what I really—you know, I think maybe we—how critical do you think our interests are in the Western Hemisphere?

Mr. NORIEGA. Thank you very much, sir.

First off, rather than let anybody draw the conclusion that somehow we drove Chavez into the direction of the People's Republic from our lack of engagement, note that he visited in, I think, 1999 or 2000, and said to the world, "I have always been a Maoist." So I just do not want to let the suggestion be that somehow we have not tried to engage him.

In terms of our energy needs, three or four of the largest foreign energy suppliers are in the Western Hemisphere. We have maintained positive relationships with those countries, but we recognize that we have to cultivate alternatives at all times, that we are finding capacity is important.

The President has laid out an energy policy. It is a comprehensive energy policy that is not just about fossil fuels, and is not just about importing oil from overseas. It is important that we have an energy strategy that identifies our options, and American private investment is heavily invested in energy overseas. I would suggest we have the biggest footprint by far in the Western Hemisphere of any country in the world.

Most of the energy exploration in Mexico is done with Ex-Im financing, so the suggestion that we somehow are not engaged is not accurate at all. It doesn't paint an accurate picture by any means.

Mr. Chairman, on the pipeline issue, there is a pipeline across Panama today and there is a pipeline across Colombia today to do just precisely the sorts of things you are talking about. I am convinced that the next pipeline will probably be built with American financing because it is important that we have this strategic vision to attend to our essential energy needs.

But it is a global market for energy. And if there are disruptions in Latin America, certainly the competition has driven the price up, that is beyond any doubt, but if folks for some reason choose not to do business with us, we will have to find our energy from other sources, and that is understood.

Mr. BURTON. Thank you, Mr. Meeks.

The Vice Chairman, Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman, and I commend you for this hearing. I regret I was not able to attend earlier, and let you know I just left a meeting with the Trade and Labor Ministers of our friends from Central America as well as the Dominican Republic as we talked about the Dominican Republic-Central American Free Trade Agreement.

So we talked about our commitment to Latin America. The ratification of that agreement is so very important as we work to strengthen not only our ties with the hemisphere, but to strengthen the economies and the democratically-elected governments in the hemisphere. I commend you on your leadership with the series of hearings that you are conducting, particularly that you kicked it off with a hearing on the status of democracy.

Of course, as we look at the economic challenges and competition that we have in today's global economy, clearly China is one of them. And when a job is lost in Honduras, when a job is lost in El Salvador to China or Asia, we all lose, including the Chinese. Again, that is why the Dominican Republic-Central American Free Trade Agreement is so very important as we work as a hemisphere to compete particularly with China and Asia in today's global economy.

Mr. Secretary, I know you have touched on a number of subjects here, and I would just like to get a sense. Through USAID and through so many programs, and I know you have touched on this during this hearing, we assist our friends in Latin America, and of course, our efforts to work toward a free trade agreement of the Americas is going to help our entire hemisphere compete as a unit in today's global economy.

But can you compare—you know, when China's representatives come to our hemisphere and they visit with leaders of our friends and neighbors in Latin America, and they talk about investments, do they also actually provide assistance as well, or is it solely an economic strategy that they seem to be pursuing, or actually are they providing some assistance to our neighbors?

Mr. NORIEGA. Our assessment is that the vast majority of it is on a market basis. That is to say in certain cases when they provide assistance, it is in the form of a low interest loan. Quite frankly, we are dealing with some of the most indebted countries in the

world, to which the Chinese are lending additional sums of money which are going to become a burden for these countries in the future. And, they quite frequently say that the work has to be done by Chinese companies.

So these capital investments are basically projects that are money-making ventures, and they do buy some influence in some of these countries.

But to give you some comparison, I have talked about this earlier in the hearing, our investment in the hemisphere is \$300 billion today, that is the current inventory. Theirs is about \$6.5 billion. Our is \$220 billion of exports from the region. They export \$17 billion. So we have dwarfed the Chinese footprint in Latin America and the Caribbean.

We also, as you know, have a \$1.7 billion aid program in this hemisphere, not including the Millennium Challenge Account which could add another quarter of a million or \$300 million for just three countries in the hemisphere in very short order. But that program is carried out in a way that all of our programs are, to sink roots and to cultivate the roots of democracy and rule of law, and equitable economies, and transparency. So we are not just seeking mercantile arrangements and extractive investments in the hemisphere. We are sinking our roots. They are our neighbors.

Mr. WELLER. Mr. Secretary, what conditions—when the Chinese provide assistance to our friends and neighbors in Latin America, what conditions do they provide?

We believe condition number one is, you know, a recognition of the People's Republic of China versus recognition of Taiwan, and you know, at least it appears that there is an effort to trade that. Is that the case, or is that condition number one?

And then are there other conditions they require that if they provide some funding or if they provide this loan that they must purchase Chinese materials and products as well?

Mr. NORIEGA. Well, in certain cases, as I noted, when they decide to do some work in a country, they lend the country money to hire Chinese workers to do the work, and that does not accrue that much benefit to a country.

In certain cases, there appears to be some linkage between recognition of the People's Republic of China as a condition for them coming in and providing some kind of support. I would have to get you a specific answer on what percentage we think is on a grant basis, but I would have to say all indications are they are not particularly generous—

Mr. WELLER. Mr. Pardo-Maurer, do you have something to add there?

Mr. PARDO-MAURER. Yes, sir. I think that is an entirely appropriate question to ask of any country seeking to do business in this hemisphere. And moreover, I think it is appropriate to ask what are the conditions that the country imposes on itself in the manner in which it does business.

No one is going to claim that we are perfect in that regard, but U.S. business must abide by the Foreign Corrupt Practice Act. There are a number of explicit and implicit codes that U.S. corporations abide by, and that in some measure holds them accountable at least to public opinion.

At the grassroots levels, there are any number of institutions of civil societies, and I will—just off the top of my head—pick some examples: Rotary Club, Kiawanis, the Lions Club; they inculcate a sense of civil responsibility and duty, and that breeds fellowship through the Americas, and these are the context in which the United States does business in Latin America. I think ultimately that strengthens democracy and strengthens economic opportunity, and indeed strengthens the security of the entire region.

I think it is fair to ask of any country: What are you doing to work within the inter-American system to provide that kind of accountability to yourself?

Mr. WELLER. Mr. Secretary, you referred to the Foreign Corrupt Practices Act and of course are aware the *Wall Street Journal* had a story just a couple of days ago focusing on a major agribusiness headquartered in the Midwest which is facing some allegations in the country of Indonesia over some bribery charges.

Does China have a similar law in place to prohibit their businesses from pursuing what we, as Americans, under our law would label corrupt practices, and using certain methods to win contracts or influence decisions?

Mr. NORIEGA. I am not aware whether they do. We can get you an answer on that. There might be certain requirements that would be imposed on them by participation in the World Trade Organization, but we can get you some details unless Roger has something in addition.

Mr. PARDO-MAURER. I think we should expand on that on the record. One must also ask: What are the institutions whereby such commitments would be upheld?

Mr. WELLER. Thank you. We look forward to seeing that information. Appreciate it.

Mr. BURTON. Thank you, Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman.

Mr. BURTON. Mr. Payne.

Mr. PAYNE. Thank you very much. It is really great to listen to this testimony. It is interesting to say the least.

I do not know where to start. Following, you know, Mr. Noriega's notion that because Venezuela is selling oil to China—you said that indirectly—to help in the field, weapons can then be brought by Venezuela because they are selling oil to China, something like that, and you can correct me if I am wrong.

In January, the United States took off its quotas to China. China sold a 1,300 percent increase in cotton trousers in January 2005—1,300 percent increase China sold to the United States cotton trousers, cotton shirts. There was an 1,800 percent increase of the United States buying from China—1,800 percent, their exports increased to the United States. As a matter of fact, it is so large now the Commerce Department said—they are not even asking for the Congress to do anything. They said we had better—let us.

So my question is: How do you tie in the fact that oil that was sold from Venezuela is fueling Venezuela's opportunity to buy weapons and we are forgetting into the trade thing an invasive amount of trade that we do with China?

In other words, I get confused at these hearings, like Ms. Harris said. I do not know if it is a love/hate relationship. We have no

laws that makes it more beneficial. It used to be Most Favored Nation status. That sounds too good because China is a bad place, so we made it normal trade relations.

We have given more stuff for China to grow, to buy weapons, to do things, and instead we are focusing in on Venezuela. I was even kind of interested in Mr. Rumsfeld's tirade about 100,000 AK-47s that Venezuela bought. I don't know what they need 100,000 AK-47s for.

But in 1999, the last record, they said a billion dollars was bought in conventional weapons of which the United States sold \$18.4 billion of it, and the year before it was stated that we did \$21 billion in weapons sold around the world by the United States, and Rumsfeld is asking Russia to cancel the 100,000 AK-47s that it sold to Venezuela.

As a matter of fact, we even opposed the United Nations convention on proliferation of conventional weapons being sold around the world. Of course, a lot of it was being sold to Africa. They are up there shooting and killing and spending money that they cannot afford.

And yet instead we are making condemnations. We just told Pakistan they can have our F-18s because India has it too, and we are going to tell a country to cancel 100,000 AK-47s to Venezuela.

In other words, I am just—you know, I would hope that we would not sell weapons to anybody. But I am trying to find out what is the policy. I mean, I am telling you, I wished they would not buy them either. However, how do you justify Rumsfeld telling Russia to cancel and telling Venezuela, "You do not need 100,000 AK-47s." You know what I am saying. So maybe some could answer that question. The \$36 billion that we sell in conventional weapons, and then refuse to participate in the convention to halt the proliferation of conventional weapons.

I have only got a couple of minutes left, so if you could respond to those points.

Mr. NORIEGA. Well, I will be very brief. My colleague will talk about the weapons, arms sales policy in general. I just wanted to correct the impression that somehow I said that Venezuela, by selling oil to China—that was not the point that I made.

Mr. PAYNE. Okay. You did not make the point, which is not uncommon. Why don't you say what you—I will listen more carefully.

Mr. NORIEGA. Yes, I did not say that at all. One of the Members made the point that this was generating income for—

Mr. PAYNE. Venezuela.

Mr. NORIEGA [continuing]. Venezuela to turn around and buy arms. My point was we buy an awful lot of oil from Venezuela and we give them a lot of money too. They have accumulated \$24 billion in reserves. At any rate, my colleague wanted to talk about the arms sales policy in general, sir.

Mr. PARDO-MAURER. Yes, sir. Our policies take each country on their own terms, and Venezuela is very different from Pakistan or any other place around the world.

Mr. PAYNE. And what is the difference real quick? [Laughter.]

No, really. What is the difference?

Mr. PARDO-MAURER. The first thing is that Venezuela is in our hemisphere and part of the inter-American system, which Pakistan

is not. And the inter-American system is one in which countries have been laboring for generations now, for at least 20 years, generations of policymakers that is today, in building transparency, in building accountability and what we call confidence in security building measures. That is actually a formal term used by the Organization of American States, and all the countries have been moving in one direction, which is to increase transparency, to increase accountability, to explain to their neighbors what they are doing.

Mr. PAYNE. So therefore you are saying it is the sphere of influence and this is in your sphere of influence. Therefore, what about, say, Russia's sphere of influence in their neck of the woods? If we want to involve ourselves and they said, "This is our sphere," and they in fact have said that in Ukraine and other places, but we do it anyway because we say it is the right thing to do. How do we justify that?

Mr. PARDO-MAURER. Well, I suppose the way to ask the question is really: What does this mean for the health of the inter-American system as a system that is based on the values of democracy? And the Secretary's question—and it was a question—was: What are they going to do with these weapons? And that is the way this has been posed. What are these weapons for? What is the threat? What is going to happen with the old weapons?

Mr. PAYNE. Okay, I just asked about Pakistan because what you mentioned is different. Pakistan, and I am glad he is there, you know, because if we listen to him we would have gotten bin Laden and stayed in Afghanistan and it would have paid for what—we would have gotten the guy that did the damage to our country who is still around, bin Laden, but Musharraf took over militarily.

Mr. BURTON. Mr. Payne, if you can—

Mr. PAYNE. And we are going to sell the F-18s to Pakistan. That is a military—I know, Mr. Burton. It seems like my time is almost up, but I just wanted to—

Mr. BURTON. Yes, it is.

Mr. PAYNE. Since we are such good friends, would you just let him try to answer that?

Mr. BURTON. Is it F-18s or F-16s?

Mr. PAYNE. It is probably 18s, it may be 16s though.

Mr. BURTON. I think it is 16s, but anyhow go ahead and finish.

Mr. PAYNE. 18s will come next. Which is the most advanced?

Mr. BURTON. Go ahead. I want to make sure we get your colleague down there and let her have—

Mr. PAYNE. Sorry. I think my point has been made. I will yield to the gentlelady from California.

Mr. BURTON. Thank you. It is always enjoyable to listen to you, Mr. Payne. You are such an eloquent fellow.

Ms. Lee.

Ms. LEE. Thank you, Mr. Chairman.

This is a very important hearing, and forgive me for being late, I was in another hearing, so I will read all of the testimony. But first of all, let me say I know Assistant Secretary Noriega, you know, and I know that the United States has supported and also has orchestrated coups and attempted coups in the Caribbean and Latin America. Just look at Haiti.

Now, I believe that one of the reasons that China has such a huge opening now in the Caribbean, there is a lot—many countries in Latin America and the Caribbean have a problem with our purported democratization efforts that support overthrows of democratically-elected governments.

Secondly, just in 2000 alone, as a result of PNTR—to follow up on my colleague's comments, we have lost over 2.7 million jobs, manufacturing and technological jobs in America—and so our policy has been lopsided with the PRC as it relates to trade policy.

I believe and many believe that the United States is continuing to appease China in its trade policies, and now we are seeing it come back to bite us in the Caribbean and in Latin America.

One of the questions I have is: What in the world is our overall plan in terms of development assistance, economic assistance to some of the poorer countries in the Caribbean, some of the lesser developed countries? Because clearly, given the resources that the United States has, the fact is that we could have done more.

Now China is there doing much more than what we are doing in many ways. What do you plan to do in the Caribbean, especially some of the Black Caribbean countries that really have been crying for our help for many, many years?

Mr. NORIEGA. Well, it is a great question. I should say at the outset that I do not accept the characterization. You are entitled to make it, that the United States supports coups in a democratically—

Ms. LEE. Mr. Noriega, you know you do. You know you have done it yourself.

Mr. NORIEGA. Well, that is absolute falsehood, and I absolutely reject that statement by you, ma'am.

Ms. LEE. Let the record show, Mr. Chairman, the history of some of the involvement of the United States in Latin America and the Caribbean as it relates to coups and attempted coups. Thank you very much.

Mr. BURTON. The gentlelady has concluded.

All right, thank the panelists very much. We will recess to the call of the gallery. We have two votes on the Floor. We should be back in about 20 minutes, and then we will go with our second panel.

[Recess.]

Mr. BURTON. The Committee will reconvene.

The next panel consists of Dr. Cynthia Watson. She joined the faculty at the National War College in August 1992. Ms. Watson served for 5 years as Associate Dean for Academic Affairs, then for Curriculum and Faculty Development. She is the Director of Faculty Development at the college at the present time. She has a lot more credentials which I will not read right now, but I am impressed.

Dr. Riordan Roett is a Distinguished Professor of Political Science and Director of Western Hemisphere Studies at the Johns Hopkins School of Advanced International Studies. From 1983 to 1995, Dr. Roett served as consultant to the Chase Manhattan Bank in various capacities, and he has other distinguished characteristics in his background as well.

Peter T.R. Brookes, Senior Fellow at The Heritage Foundation serves as Director of Asian Studies at the Asian Studies Center. Mr. Brookes served in the Bush Administration as the Deputy Assistant Secretary of Defense for Asian and Pacific Affairs. He also served as a professional staff member with the Republican staff of the Committee on International Relations focusing on East and South Asian Affairs, and he also has a distinguished military background.

Commissioner June Teufel-Dreyer was reappointed to the U.S.-China Economic and Security Review Commission by Speaker of the House Dennis Hastert on January 23, 2004 for a 2-year term, expiring in December of this year. Commissioner Dreyer is a Professor with the Department of Political Science at the University of Miami, Coral Gables, Florida. She is also a Senior Fellow of the Foreign Policy Research Institute.

We appreciate very much you folks for being here, and with that let me go ahead and have you sworn in, and we will get started.

[Witnesses sworn.]

Mr. BURTON. Okay, let me start—we will start, I think, with ladies first, Ms. Teufel-Dreyer.

TESTIMONY OF JUNE TEUFEL-DREYER, PH.D., COMMISSIONER, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Ms. TEUFEL-DREYER. Thank you. I very much appreciate this opportunity to be here, particularly because the United States-China Commission has been examining China's growing ties to Latin American nations in the context of Beijing's global strategy, and this is going to be the subject of several full-day hearings, one of which, in July, I am going to co-chair, so we look forward to working closer with you on this matter.

Much of what I planned to say has been said earlier, and I do not want to repeat, particularly since I am told I have only a very few minutes to talk. So let me just summarize by saying that it is my belief that while China has no wish to go so far as to damage its relations with the United States, it does appear to be using Latin America to challenge the United States' supremacy in the Western Hemisphere, and to build a Third World coalition of nations with interests that may well be at variance or even inimicable to American interests and values. If the trends that I have outlined in my statement continue, they could pose a significant challenge to the Monroe Doctrine.

Previous testimony mentioned that China is competing in Latin America in accordance with free market principles. I would like to take exception to this because in fact the playing field is not level when Chinese companies compete for contracts in Latin America. Chinese companies, unlike companies in the United States and in most of the rest of the world, are not beholden to their shareholders. Therefore they can make loans on basically non-economic principles because they do not have to worry about paying back. They have been given generous lines of credit by their government.

In some instances that we have looked at, it appears that the object is to force other countries' industries out of a market. In other

words, this is a kind of corporate strategy akin to dumping elsewhere. So that is one point I want to make.

Another point is Assistant Secretary Noriega's statement that the United States' investment in Latin America is far higher than Chinese investment. He is, of course, correct, but I would urge you to look at the fact that the United States tends to invest in broad social programs, much of it is spending in broad social programs. Often these are abstract and it is hard for many citizens of Latin America to see this in terms of their own lives sometimes, whereas China very carefully looks for niches and very visible projects that the average person will notice.

Ms. Harris mentioned that a stadium was built in Grenada, and that this appealed very much to the passions of the local population. That sort of thing is done, and of course, there is a great deal of resentment of the United States in Latin America for various reasons. The Chinese come in and present themselves as the country's lever against United States domination. "We can help you to resist the United States, join with us."

Also, of course, there is the issue of China seeking out Latin American leaders with whom the United States has differences for special attention, so that is not exactly: We are competing just the way everybody else competes in Latin America. These leaders are Presidents Lula of Brazil, Castro of Cuba, Toledo of Peru, and Chavez of Venezuela.

There is a significant military dimension to China's presence in Latin America, still relatively small but growing. In 2003, Australian sources reported that China had been operating two intelligence signal facilities out of Cuba since 1999, south of Havana. These include cyber warfare units that monitor computer data traffic from the United States, and a large complex equipped with 10 satellite communications antennas which, we gather, is mainly concerned with intercepting U.S. telephone communications.

In 2001, China was reported to be negotiating with Russia for the use of the Lourdes military base on the outskirts of Havana. This had been the Soviet Union's front line facility for gathering intelligence on the United States; Russian President Putin decided to abandon it for financial reasons.

Additionally—this is in response to a question that was asked earlier about the Chinese and Cuban and Venezuelan intelligence service unconfirmed reports, and I stress these are unconfirmed though I have been promised confirmation soon, in Miami they say that there has been cooperation among the Chinese, Cuban and Venezuelan intelligence services.

An American general informed participants in a defense conference in Miami in March 2005—in other words, just last month Chinese military officials made 20 visits to Latin America last year. I believe the Chairman mentioned this in his opening statement. Also, it seemed that Latin American military officers who used to travel to the United States for training were now going into China instead.

In essence, Mainland China is taking advantage of a void created, at least in part, by United States policy to cut military aid to countries that refuse to exempt U.S. citizenry from international court jurisdiction. This raises the possibility that the United States

may be about to lose contact with a generation of Latin American officers.

I would respectfully suggest that perhaps we should take another look at this. There may be good reasons for continuing our present policy, but it would not hurt to take a fresh look at it.

What else did I want to mention here? With regard to Mr. Faleomavaega's statement, he was told by the Chinese that they respect all small countries, big or small, I would take the Chinese statements with a rather large dose of salt. One of the things that the Chinese are doing in the South Pacific is competing with Taiwan for diplomatic recognition since many of Taiwan's remaining allies are in the South Pacific.

Another thing the Chinese are doing is getting things on favorable terms to themselves. I spent quite a bit of time in the South Pacific when I worked for the Chief of Naval Operations. I heard a lot of complaints in the South Pacific that the Chinese were exploiting their fishing resources; the Chinese were exploiting their sandalwood; the Chinese were taking their farms. And finally, as another case in point, the Chinese established a satellite downlink in the island of Kiribati. It happens that the Taiwanese weaned it away from them, and the Chinese destroyed the tracking station as they left, so there are often factors operative than respect for South Pacific nations. I think you could say the same is true of Latin America.

It is not that people in Latin America are gullible about this. They are definitely not. There are some real concerns, particularly in Mexico. It is estimated that from 2001 and 2003 more than 200,000 textile and other factory jobs were lost by Mexico because of relocation to factories in China. And leaders in almost every Mexican——

Mr. BURTON. Ms. Teufel-Dreyer, if you could sum up.

Ms. TEUFEL-DREYER. Yes. That there are really a lot of concerns in Latin America about China taking over, and many Latin Americans have expressed concern that they do not want to become a colony of China. They have also expressed a lot of concerns about the infrastructure projects that China is constructing in Latin America because the Chinese record on environmental preservation in their own projects in China has been so poor.

Thank you.

[The prepared statement of Ms. Teufel-Dreyer follows:]

PREPARED STATEMENT OF JUNE TEUFEL-DREYER, PH.D., COMMISSIONER, U.S.-CHINA
ECONOMIC AND SECURITY REVIEW COMMISSION

Mr. Chairman, I appreciate the opportunity to testify on behalf of the U.S.-China Economic and Security Review Commission before these two important subcommittees of the House International Relations Committee.

In my testimony today I will provide an overview of China's strategy towards Latin America, including Beijing's economic and strategic objectives in the region, and would be happy to address the implications for these developments for U.S. strategic interests in response to members' questions. I welcome the chance to present my view of how China's growing presence in Central and South America fits into Beijing's larger foreign policy objectives and the implications for the U.S.-China bilateral relationship. While the PRC does not wish to damage its relations with the United States, it appears to be attempting to use Latin America to challenge U.S. supremacy in the region and build a third world coalition of nations with interests that may very well be at variance, or even inimical, to American interests and val-

ues. If the trends that are outlined below continue, they could pose a significant challenge to the Monroe Doctrine.

I also wish to advise the subcommittees that in coming months the U.S.-China Commission will begin to examine China's growing ties to Latin American nations in the context of Beijing's global diplomatic strategy. This analytical effort will include several full-day hearings, one of which I will co-chair in July. Following its 2005 hearings, the Commission will make specific findings and determine consequent recommendations for Congressional action; these will be included in its 2005 Annual Report to Congress this fall. This work plan reflects the Commission's determination to carefully determine and supply the advice and counsel to Congress concerning China's activities, and their bearing on our nation's security interests, that it is mandated to supply by the legislation that established the Commission.

CHINA'S OVERALL STRATEGY IN LATIN AMERICA

In his recent visit to Latin America for the APEC summit in Santiago, Chile last November, Chinese President Hu Jintao stressed what he called the "win-win" nature of China's relations with Latin America. His calls for expanded political and economic ties were greeted warmly. In addition, Argentina, Brazil, and Chile extended to Beijing the much-coveted Market Economy Status (MES), which substantially diminishes the effect of anti-dumping legislation. Given the vast amount of non-market influences in the Chinese economy¹ and the extensive role of state actors, there can be little doubt that this decision was made almost exclusively on the basis of China's growing political and economic influence.

The importance with which China views Latin America has grown steadily since the late 1990s. That is particularly true of Beijing's six major relationships in the region: Argentina, Brazil, Chile, Cuba, Mexico, and Venezuela. China's "peace and development" rhetoric draws attention from China's security strategy in the region. Beijing's carefully calibrated diplomatic overtures have been a key to China's success over this period: maintaining a peaceful international environment to concentrate on economic development; pursuing multipolarity; and employing economic leverage when necessary. A more troubling aspect of this strategy is that it has led Beijing to seek out Latin American leaders who have differences with the United States. Specifically, these include presidents Lula of Brazil, Castro of Cuba, Toledo of Peru, and Chavez of Venezuela. Closer ties have been established under the rubric of strengthening economic interdependence, which the U.S. can scarcely object to.

MILITARY LINKS

China's penetration of Latin America includes a military dimension. In 2003, Australian sources reported that China had been operating two intelligence signals out of Cuba since 1999. At Bejucal, south of Havana, are a cyber warfare unit that monitors computer data traffic and a large complex equipped with ten satellite communications antennas and mainly concerned with intercepting U.S. telephone communications.² In 2001, China was reported to be negotiating with Russia for the use of the Lourdes military base on the outskirts of Havana. This had been the USSR's frontline facility for gathering intelligence on the United States; Russian President Putin decided to abandon it for financial reasons.³ Unconfirmed exile sources in Miami claim that there has been cooperation among the Chinese, Cuban, and Venezuelan intelligence services. An American general informed participants in a defense conference held in Miami in March 2005 that mainland military officials made 20 visits to Latin America last year and that senior Latin American military officers who used to travel to the United States for training were now going to China instead.⁴ In essence, the mainland is taking advantage of a void, created at least in part by the U.S. policy to cut military aid to countries that refused to exempt U.S. citizenry from International Criminal Court jurisdiction. This raises the possibility of the United States losing contact with a generation of Latin American military officers.⁵

¹ See USCC 2004 Annual Report to Congress chapters 1-3.

² Hamish McDonald "China Loves the Buena Vista: Castro Provides Chinese Military Spying Stations in Cuba." *Sydney Morning Herald*, February 27, 2003.

³ Tsutomu Saito and Keiichi Takagi, "China Said Negotiating with Russia For Use of Intelligence Facility in Cuba." *Sankei Shimbun* (Tokyo). December 7, 2001, trans. In JPP20011207000024.

⁴ (No author), "Beijing Forging Military Links with Latin America," *Reuters* (Miami), March 12, 2005.

⁵ *Ibid.*

DIPLOMATIC OVERTURES

China has institutionalized its dialogue with Latin American countries through regional and sub-regional organizations. It has obtained observer status in existing organizations, including the Association for Latin America Integration, Organization of American States, Inter-American Development Bank, and Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean and joined new political dialogues or consultation mechanisms, such as the Andes Community, The Rio Group, and MERCOSUR. Most meaningful among these has been the PRC's official admission into Organization of American States as a permanent observer in May 2004.

China and Brazil have common interests in using these international fora for political purposes, including increasing their leverage against the industrialized countries. For example, the PRC and Brazil worked together closely in the 2003 Cancun World Trade Organization ministerial meeting, organizing the G 21 to bargain with the West on farm subsidies issues. Brazil has challenged U.S. leadership in the formation of Free Trade Agreement of the Americas (FTAA) by strengthening Common Market of the South (MERCOSUR). MERCOSUR has initiated negotiations on signing a free trade agreement with China.

The PRC has also used its position on the United Nations Security Council in an increasingly active role therein to develop ties with Latin America. It has supported Brazil's attempt to gain a permanent seat on the United Nations Security Council and taken part in UN peacekeeping operations, including most recently its mission in Haiti. Beijing dispatched 155 police officers to supervise Haitian police, maintain order and help rebuild the judicial system.⁶ This kind of humanitarian assistance was designed to shore up China's image in the region and succeeded in promoting goodwill prior to President Hu's trip last November. Additionally, it provides an opportunity to erode Haiti's diplomatic ties with Taiwan.

An important indicator of increased Chinese diplomatic efforts and influence in Latin America has been its upgrading of relations with Argentina and Chile. Chile-China relations were recently declared "full-range cooperative," and the Sino-Argentine relationship was recently elevated from full-range cooperative to "strategic." A variety of incentives are used to win over Latin American states. For instance, Brazil, Cuba, Argentina and Chile were recently selected as "Chinese group travelers' destinations." China is among the top ten overseas tourist consumption markets and is expected to become the world's fourth biggest tourism source nation by 2020. Already Chinese tourists are common in many European countries and in Asia. Hence, this official designation serves as an attractive Chinese diplomatic tool, potentially worth millions of dollars each year to the nations selected.⁷

COMMERCIAL INTERESTS

China has recently signed a number of energy, natural resource, economic and tourism agreements intended to bolster its presence in the region and secure access to valuable natural resources and markets. In aggressively seeking out potential deals, Chinese companies have significant advantages over their international competitors, which are beholden to their shareholders. According to testimony given to the U.S. Senate Energy Committee in February 2005, Chinese firms make uneconomic bids using generous lines of credit from the PRC government and financial institutions and are pursuing market and strategic objectives rather than commercial ones.⁸

Given China's rapidly growing consumer demand, PRC-Latin American trade has expanded rapidly in recent years, to the benefit of Latin America. In the past four years, China-Latin American trade has expanded even faster than China's total global trade. From 2001 to 2003, the average annual growth rate of China's trade with Latin America was 25.4 percent while its global trade grew by 22.1 percent. During the first half of 2004, the trend accelerated, with 55.4 percent growth in trade with Latin America and only a 39.1 percent increase in total trade. China's foreign trade with Brazil, Mexico, Chile, and Argentina together accounted for 73

⁶"China police to keep Haiti peace," *BBC News*, September 29, 2004, <<http://news.bbc.co.uk>> (October 12, 2004).

⁷This kind of offer has been approved as a very attractive means in China's diplomacy. According to the World Tourism Organization, China is among the top ten overseas tourist consumption markets and will become the world's fourth biggest tourism source nation by 2020. Cuba was approved as a Chinese travelers' destination in 2003. "Brazil, Argentina, Chile approved as Chinese group travelers destinations," *Xinhuanet*, <http://www.chinaview.cn>, November 19, 2004.

⁸Juan Forrero, "China's Oil Diplomacy in Latin America," *New York Times*, March 1, 2005, p.C6

percent of the total Sino-Latin American trade in 2003. Beijing has been working towards free trade agreements with these countries; it appears these efforts are most advanced with Chile.⁹

Beijing is also using its growing economic strength to influence Latin American nations. In 2003, the amount of trade between Latin America and China was roughly \$27 billion, which was more than twice the amount in 2000. China's exports to Latin America were \$11.9 billion, while its imports were \$14.9 billion. This trade balance in favor of Latin America is expected to continue for many years and bilateral trade is expected to continue to increase exponentially. As China continues to grow based on manufactured exports, its demand for Latin American raw materials will soar. The products that China imports from Latin America typically include iron ore, copper, oil, wool, leather and other agricultural and forestry products. It is worth noting that in many of these products, China has become the biggest consumer in the world.

Trade and investment between China and Latin American countries has grown sharply and APEC's role has been significant. So far, APEC represents the only inter-governmental framework for dialogue between China and Latin America on such issues as trade and investment.

China has also been cooperating with Latin American countries in the field of aeronautics and space exploration, especially in earth resource satellites. The two sides have already deployed two joint-developed earth resource satellites and plan to further their cooperation in the international resource satellite data market. Moreover, Embraer, the largest aviation industrial manufacturer in Brazil, and the China Aviation Industry Corporation II established the joint venture Harbin Embraer Aircraft Industry Company Limited. This is Embraer's first foreign manufacturing operation.¹⁰

Much of the PRC's investment in Latin America is aimed at infrastructure construction. In a ten-year investment plan announced in November 2004, China pledged to invest more than \$19 billion in Argentina, including \$8 billion investment in the expansion of Argentina's railway system and \$6 billion in other construction projects.¹¹ This is aimed at facilitating mineral and other resource exploitation and is especially welcome in Argentina, since the 2001 default has left the country bereft of international investors. Peru and Brazil are cooperating in the construction of a road that will link Sao Paulo with Lima and, more importantly, from Brazil's soya-growing state of Mato Grosso to Peru's Pacific ports, whence goods can be more easily shipped to China. Currently, goods must be sent to Atlantic ports or trucked across Argentina to Chile.¹²

Despite the flowery rhetoric, not everything in the economic relationship between China and Latin American nations is positive. Relations between China and Mexico have been marred by the competitive threat to Mexico from low Chinese wages and cheap goods. It is estimated that from 2001 to 2003, more than 200,000 clothing, textile and other factory jobs were lost in Mexico by the relocation of factories to China.¹³ Leaders in almost every Mexican industrial sector, from traditional handicrafts to assembly-for-export plants, have complained about the penetration of Chinese goods into Mexican markets and jobs lost to low Chinese wages. Even images of Mexico's patron saint, the Virgin of Guadalupe, are now made in the PRC. President Vicente Fox blamed China publicly for solving "its domestic unemployment by means of authoritarian and undemocratic policy."¹⁴ Some Latin American economists have derided the talk of a South-South alliance as more ideological than economic. They fear that Beijing intends to use the region as a producer of commodities so as to regulate prices and depress them on world markets, and stress that Latin America must avoid falling into the trap of being a supplier of commodities for the PRC's value-added manufacturing enterprises—in effect, in their view, assuming the posture of a Chinese colony. Closing factories in Central America has implications for employment in the United States as well, since more than 70 percent of the gar-

⁹Chinese President Hu Jintao and Chilean President Ricardo Lagos Escobar announced the start of talks on a free trade agreement on November 18, 2004. (No author), "Hu in Chile," *China Daily*, November 19, 2004.

¹⁰(No author), "Brazil's Embraer Signs Deal to Build Jets in China," *Reuters* (Sao Paulo) December 3, 2002.

¹¹"China Plans to Invest \$19B in Argentina," *Xinhuanet* 17 November 2004, < <http://www.chinaview.cn> > (November 17, 2004).

¹²(No author), "Short Cut to China: Completing the Missing Link," *Economist*, March 23, 2005.

¹³Mary Jordan, "Mexico Now Feels Pinch of Cheap Labor," *Washington Post*, December 3, 2003, p. A19.

¹⁴Neal Kuo, "Blame Partner for Rising Unemployment: China and Mexico Relations in Troubled Water," *China Times*, August 9, 2004, p. A10.

ments made in Central America are produced from American fabric and yarn. In the words of one Central American exporter who closed one of his four plants last year and faces the closing of another in 2005, "If we go belly up, the United States will go belly up." Many of the unemployed in Central America can be expected to emigrate to the United States.¹⁵

After the Brazilian government agreed to recognize China as a market economy, the influential Industrial Federation of Sao Paulo criticized the move as a political decision that could leave the country's industry in a vulnerable position and bring "prejudicial consequences to various industrial sectors."¹⁶ Designation as a market economy will, for example, make it harder under WTO rules to impose penalties on the PRC for dumping exports. Brazilian businesses worry not only about the PRC's inroads into the domestic market, but also about exports of products which Brazil has had some success in exporting. Additionally, so much foreign investment has been going to China that Latin America is finding it difficult to obtain the capital it needs to finance its own growth. Since many of the projects funded by the PRC are highly polluting, environmentalists are concerned. Noting Beijing's poor record on such projects as the South-North water transfer project, the Three Gorges Dam, and the Golmo to Lhasa railway, they fear similar effects in Latin America.¹⁷

TAIWAN

Since 1949, China's relations with Latin America have been influenced by China's competitive relationship with Taiwan. During his 2004 tour of the region, President Hu Jintao stressed the importance of the one China principle and peaceful reunification under the principle of "one country, two systems." Over the years, both the People's Republic of China (PRC) and Republic of China on Taiwan (ROC) have competed fiercely with each other in Latin America, mobilizing substantial diplomatic and economic resources to achieve their interests.

Taiwan maintains diplomatic relations with 26 countries. Of these, 12 are in Latin America.¹⁸ All Central American nations have maintained diplomatic relations with the Republic of China on Taiwan for more than six decades.

Participation in the international trade regime is a major pillar in Taiwan's strategy to protect its national interests and prevent it from being marginalized in international society. In addition to participating in global and regional trade organization (e.g., World Trade Organization, Asia Pacific Economic Cooperation), Taiwan's government has relentlessly pursued a free trade agreement with any willing nation. Panama and Costa Rica currently maintain the most robust trade relationship with Taiwan.

China has taken several steps to win friends and expand its interactions in the western hemisphere with an eye towards undermining Taiwan's diplomatic ties to the region. China has used its position as a permanent member of UN Security Council to approach those Latin American nations, which have diplomatic relations with Taiwan. China has on occasion employed coercive measures to compel Central American states to modify their policies toward Taiwan. Such tactics have, however, sometimes backfired. In 1996, angered by Chinese efforts to impede the extension of a United Nations peacekeeping operation in Haiti, the nations of the region, including Cuba, unanimously appealed to the UN Security Council to end further Chinese obstruction of the operation.¹⁹ In 1997, China forced Guatemala to withdraw its support for Taiwan's bid for United Nations membership by vetoing a proposal to send an urgently needed verification mission to Guatemala.²⁰ Despite China's pressures, however, Guatemala continues to support Taiwan on other issues.

Faced with the failure of coercive policies, China modulated its foreign policy in a more nuanced direction. Using its growing economic power, China gained a foothold in Central America by providing trade and investment opportunities. It established semi-official trade development offices in Panama, Haiti, and the Dominican Republic. China also employed an indirect approach to gaining leverage on Taiwan via group pressure. For example, China used a free trade agreement with Brazil and

¹⁵ Ginger Thompson "Fraying Of a Latin Textile Industry," *New York Times*, March 25, 2005.

¹⁶ Larry Rohter, "China Widens Economic Role in Latin America," *New York Times*, November 20, 2004, www.nytimes.com/2004/11/20/international/asia/20china.html

¹⁷ *Ibid.*

¹⁸ These 12 countries are: Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent and Grenadines. (No author), "Grenada Picks China Over Taiwan," *BBC News World Edition*, January 21, 2005.

¹⁹ Barbara Crossette, "Latin Nations At U.N. Insist China Change Stand on Haiti," *New York Times*, February 24, 1996, p. 5.

²⁰ Lian-fen Wang, "China Uses Veto Power for the First Time in 25 Years," *China Times*, January 12, 1997.

Argentina to motivate them to exert pressure on Paraguay to switch its diplomatic recognition, although this has not yet achieved the desired goal.

Panama is the current frontline battleground in the competition between China and Taiwan.²¹ Although Panamanian officials stress that their government has no plans to recognize the PRC, voices for such a change have been heard from time to time.²² During Panama's 2004 presidential election campaign, Guillermo Endara Galimany, a former President and a candidate for the Solidarity Party, said that if he were elected, he would transfer diplomatic recognition from the Republic of China to the People's Republic of China.²³

In courting Panama, one of China's strengths lies in its presence at the Panama Canal. China is the third largest user of the Panama Canal, after the United States and Japan. The China Ocean Shipping Company's President has joined the advisory board of the Panama Canal Authority, the agency in charge of supervising the waterway.²⁴ China's Vice Foreign Minister Zhou Wenzhong stressed during his visit in June 2004 that China hopes to participate in the expansion of the Canal and the construction of new locks.²⁵ China is now attempting to use its huge commercial potential to influence Panama's diplomatic loyalties and appears to hope other Central American countries will follow suit. China's total two-way trade with Panama is \$150 million, and its domestic market is a great attraction for Panama and its people. Competition between China and Taiwan will continue.

The carrot and stick policy that the PRC has traditionally employed with Third World countries applies as well to its dealings in Latin America. In a recent example of that behavior, China denied access by all states that recognize Taiwan to a new, UN-sponsored South-South Cooperation project.²⁶ China has also used its membership regional and sub-regional organizations to further its Taiwan policy. For example, in October 2002, then Chinese Foreign Minister Tang Jiaxuan met with the foreign ministers of the Andes Community and convinced them to insert an additional paragraph into Joint Communiqué: "The Andes Community and its member states abide by the one China policy, there is one China in the world; the People's Republic of China is the sole legal representative of China; and Taiwan is an inseparable part of China."

ENERGY AND RAW MATERIALS

There is a clear distinction between U.S. and PRC approaches to securing oil supplies. Whereas the U.S. has shifted from an oil import strategy that was based upon controlling the oil at its source to one that is based upon global market supply and pricing, the PRC strategy is still focused upon owning the import oil at the point of production. Geopolitically, this could bring both countries' energy interests into conflict. The U.S. strategy is to have plenty of oil available on the world market, while PRC wants to own the barrel that they import.²⁷

As China becomes the world's manufacturing center, it has also become the world's largest consumer of copper, aluminum, iron, and cement, and number two consumer of oil. To protect these supplies, China is employing methods of past imperialist powers. There are examples in Latin America of Chinese mercantilism assuming a pattern in which a dominant country secures markets for its manufacturing goods in exchange for raw materials from its weaker partners. Ambitious mercantile powers want to keep any advanced industrial project in their own hands, relegating trade partners to a subordinate supplier status.²⁸

China's oil demand is expected to reach 12.8 million barrels a day by 2025. While in South America for the Santiago APEC summit, China's President Hu toured Latin America to boost bilateral trade and cooperation. These efforts can be seen

²¹ Cynthia Watson, "Adios Taiwan, Hola Beijing: Taiwan's Relations with Latin America," *China Brief* Vol. 4, No. 11, May 27, 2004, p. 9.

²² (No author), "Higher Voices for Diplomatic Relations with PRC among Panamanian Politicians," *United Daily News*, May 16, 2004, p. A13.

²³ (No author), "Changes in Republic of China and Panama Diplomatic Relationship?" *United Daily News*, April 22, 2004, p. A13.

²⁴ (No author), "Changes in Republic of China and Panama Diplomatic Relationship?" *United Daily News*, April 22, 2004, p. A13; Vanessa Hua, "The Americas; Which China Card?" *Economist*, July 13, 2002, p. 50.

²⁵ Neal Kuo, "Red Alert: Frederick Chien Flies to Panama," *China Times*, June 24, 2004, p. A2.

²⁶ (No author), "Taiwan's Allies to be Excluded from Chinese Aid Plan," *Agence France Presse*, July 7, 2004.

²⁷ James Caverly, "The Future of China's Energy Security," *Economics and National Security: The Case of China* (Carlisle Barracks, PA: U.S. Army War College, August 2002), p. 324.

²⁸ William R. Hawkins, "China Pursues 'Manifest Destiny' Through Mercantilism and Imperialism," February 3, 2005.

as part of a broader drive for overseas expansion by PRC national oil companies (NOCs) to meet growing demand, diversify, and lessen reliance on the Middle East. These moves fit the typical pattern of PRC energy investments: ideological links with trading partners and absence of competition from large U.S. producers.²⁹

Some analysts look at China's global push for resources and at the prices it is paying as a sign of weakness and national insecurity—or paranoia, an acute awareness of vulnerability. According to these analysts, China does not see the international system as being in its favor and thus it engages in a constant quest for vertical integration and control. The \$1 billion Brazil pipeline deal is an example of this insecurity—the oil involved could be purchased on the open market for one third of that amount. The Canadian (Noranda) mineral deal (\$5.5 billion) is another example. Noranda is the world's third largest zinc producer and ninth largest copper producer. But the PRC's actions appear to be based upon the assumption that commodity prices will stay high indefinitely, and PRC could be left holding vastly inflated contracts if prices collapse. Other analysts say that the security these investments bring is worth the high prices.³⁰

China's global equity in investments in energy exploration and production (E&P) are not entirely profit motivated. China's interests are also geopolitical (WTO /market economy recognition, non-recognition of Taiwan, establishing long-term relationships with states out of favor with the U.S., etc). The underlying reason for China's quest for energy security is political stability—it needs export (manufacturing) driven GDP growth of at least 7 percent to avoid social unrest, and to fuel the manufacturing sector it needs secure supplies of oil. (It is self-sufficient in other forms of energy, or the proportions are small.)

1. Venezuela

Venezuela is pumping around 2.6 million barrels of oil a day. This is lower than its OPEC quota and the official government estimate of 3 million barrels a day. Its goal is to produce 5 million barrels a day by 2009.

Visiting China in December 2004, Chavez said that China would be allowed to operate 15 mature oil fields, which could produce more than a billion barrels. Chavez has also invited PRC firms to bid on gas exploration contracts. Other agreements that Hu and Chavez signed covered agriculture, railways, mining, and telecommunications. Venezuela and China are looking into ways to improve movement of oil to Pacific transfer points. A pipeline across Venezuela and Colombia to a deep-water port is being considered. A backup alternative would be a pipeline through Panama.³¹

Venezuela, which sends more than 60 percent of its oil to the U.S., began negotiations with Colombia last month on building an oil pipeline to the Pacific. That would enable greater exports to China by bypassing the Panama Canal.³² Besides the development rights in the 15 oil fields, PRC will also build refineries. Chavez also invited PRC to help him establish a government-owned oil corporation. Only 4,000 barrels per day would go to the PRC. The PRC imports about 738 million barrels of oil a year, and the deal is thus “less than 0.2 percent of the amount that China is expected to import this year.”³³ By comparison, the U.S. imports around 1.5 million barrels a day from Venezuela according to the DOE. According to state-run Petroleos de Venezuela SA, Venezuela exports 2.7 million barrels a day.³⁴

Some are concerned about Chavez's ambitions. The deal that Venezuela and Colombia signed for oil and gas pipelines between the Maracaibo Basin and the Pacific and Caribbean would allow Venezuela to ship oil to China without going through the Panama Canal. This makes it in Chavez's interest to secure a pliant government in Colombia, and if successful, then he could dominate the region—destabilize the hydrocarbon rich governments in Bolivia, Colombia, and Ecuador—i.e., have a regional monopoly.³⁵

²⁹ Juliette Kerr, “China's Sinopec Signs Production Contract with Cuban State Oil Company,” World Markets Research Centre, February 1, 2005.

³⁰ Howard W. French, “China's Splurge on Resources May Not be a Sign of Strength,” *New York Times*, December 12, 2004.

³¹ Hawkins, February 3, 2005.

³² Paul Basken and Damian McLean, “China's Foreign Policy Pumped by Oil,” *Straits Times*, December 21, 2004.

³³ Chris Buckley, “Venezuela Agrees to Export Oil and Gas to China,” *New York Times*, December 27, 2004.

³⁴ (No author) Colombia, Venezuela Consider Pipeline for China Sales (Update 1), Bloomberg.com, January 9, 2004.

³⁵ Stephen Johnson and Ariel Cohen, “Minimizing Mischief in Venezuela, Stabilizing the U.S. Oil Supply” (Heritage Background No. 1787, August 12, 2004).

2. Brazil

In the energy sector, Beijing is reaching out to Brazil for its reserves of non-enriched uranium and is interested in convincing Brazilian firms to participate in the construction of 11 new nuclear power plants in China.³⁶ In addition, its representatives are negotiating a \$1.17 billion agreement for Chinese participation in two Brazilian gas pipelines.³⁷

Brazil's oil and gas output is expected to peak at 3.27 million barrels a day oil equivalent by 2020. After 2020, Brazil's production is expected to fall, but Brazil will be self sufficient in crude oil by 2006. Today, Brazil's production stands at 1.8 million barrels a day of oil equivalent (of which just oil is 1.5 million barrels a day). Most of Brazil's production is offshore and is produced by the state-owned company Petrobras.³⁸ Brazil exported 5 million barrels of oil to China in 2003, and was expected to export 14 million barrels in 2004.³⁹

Last November, when Hu visited Brazil, both President's Lula and Hu predicted that China would replace U.S. as Brazil's largest trading partner, and they spoke of a strategic partnership. The PRC wants to increase its imports of chicken, beef, soybeans and minerals. China's long-term objectives are to satisfy its need for raw materials and food. In return, Hu offered \$5–\$7 billion investment in Brazil's roads, railways and ports. Also, the PRC wants to transfer Brazil's aircraft technology to PRC by embarking on a joint venture with Brazil in regional airliner construction. It has an agreement to buy at least ten of Brazil's Embraer aircraft, but the real PRC objective is the joint venture.⁴⁰

In May 2004, Petrobras and Sinopec signed strategic cooperation agreements for oil exploration, production, refining, products sales, petrochemicals, pipelines, and technical cooperation partnerships. Also, PRC and Brazil have signed a memorandum of understanding (MOU) under which Sinopec will evaluate whether to participate in a proposed 1,225 mile, \$1.3 billion natural gas pipeline in Brazil. Sinopec would perform engineering and construction, financing would be supplied by China's Export-Import bank. China has pledged to invest \$10 billion in Brazil over the next two years. Also, Petrobras has agreed to cooperate with Sinopec in oil exploration in China and Brazil and will build a logistics center in China.⁴¹

The PRC was Brazil's seventh largest export destination in 2002 but moved to number 3 in 2003. Aided by its newly awarded MES, by 2005, the PRC is expected to eclipse Argentina as Brazil's number two export destination.⁴² The PRC/Brazil "trade deal included funding for a joint oil-drilling and pipeline program at a cost that experts said would add up to three times the cost of simply buying the oil on the market."⁴³

4. Argentina

When Hu visited Argentina in November 2004, he announced a \$19.7 billion broad-ranging package of possible PRC investments in Argentina (roads, construction, and energy).⁴⁴ China would supply \$8 billion dollars for railroads, \$6 billion for construction projects, and \$5 billion for oil exploration and also would provide funds for communications and satellite technology development. China is the fourth largest destination for Argentine exports (the leading export is soybeans). Hu signed letters of intent and MOUs calling for increase in PRC imports from Argentina from \$3 to \$7 billion.⁴⁵ The energy part was \$5 billion, to be invested in Argentine oil exploration over five years, but the offer came from a third party—Angola. It was extended by Angola's state-owned company Sonangol to the newly created Argentine state-owned company Enarsa. (Angola is sub-Saharan Africa's second largest oil producer after Nigeria. Earlier this year, the PRC loaned Angola \$2 billion to rebuild

³⁶(No author) "China Re-evaluating Energy Policies: Brazil," *China Reform Monitor* No. 550 (June 23, 2004).

³⁷(No author) "China Looking to Latin America for Resources During Hu Trip," *Yahoo News*, November 10, 2004. <<http://news.yahoo.com>>(November 11, 2004).

³⁸Bernd Radowitz, "Brazil's Oil, Gas Output 3 Million Barrels a Day by 2015," *Schlumberger Realtime News*, November 23, 2004.

³⁹Peter Howard Wertheim, "General Interest/Brazil Accepts China as 'Market Economy', Inks Cooperation Pacts," *Oil and Gas Journal Online*, November 16, 2004.

⁴⁰Hawkins, February 3, 2005.

⁴¹Wertheim, November 16, 2004.

⁴²Randy Jones, "Hu visited Lula and Brazil recognized China as a market economy." SCMP/AP, November 17, 2004 (Buenos Aires).

⁴³Richard Spencer, "Tension rises as China sours the globe for energy," *news.telegraph*, November 19, 2004.

⁴⁴Drew Pearson, "China—Argentina Oil Investment Deal Gives Angola Key Role," *Schlumberger realtimenews*, November 23, 2004.

⁴⁵Randy Jones, "China announces plans to invest US\$19 billion in Argentina," SCMP/AP, November 17, 2004 (Buenos Aires).

infrastructure destroyed in the civil war, and Angola rejected Royal Dutch Shell's plans to sell its half of a petroleum project to an India company and ordered the private company to sell to PRC interests instead.) Argentina's decision to bring in the China-Angola alliance comes as President Kirchner's government takes a more assertive role in Argentina's troubled energy sector.⁴⁶ The lead export to the PRC is soybeans, and most of the Argentine increase in exports was in agricultural products. On the other hand, PRC's exports to Argentina are manufactured goods.⁴⁷

5. Cuba

In the energy arena, Cuba normally attracts less attention than the oil-rich states. But on Christmas Day 2004, Castro announced that two Canadian companies had discovered reserves of 100 million barrels in the Gulf of Mexico next to Cuba. Cuba gets most of its oil from Venezuela on favorable terms. The discovery could have some significance for U.S., to which the Gulf of Mexico is one of its largest sources of oil. U.S. companies are prohibited from drilling in waters 100 miles from Florida, but foreign companies are active there. Cuba's oil production is up from 18,000 barrels a day in 1992 to 75,000 in 2004—mostly heavy oil used for power plants and cooking. It imports 53,000 barrels a day from Venezuela, much of it already refined into gasoline. However, the new finds are lower in sulfur. Larger finds could put pressure on the Bush administration to "permit minimum purchases of Cuban origin oil."⁴⁸

PRC has had a trade/intelligence relationship with Cuba for some time, and the discovery of oil (if more significant) will probably increase PRC involvement in Cuba, 90 miles from U.S.

Cuba's state oil company Cubapetroleo (CUPET) signed a production sharing agreement a month after Castro's announcement of the 100 million barrel discovery. China is Cuba's third largest trading partner after Venezuela and Spain, representing 10 percent of Cuba's foreign trade. But China's foreign investment in Cuba has been concentrated in nickel production, not oil exploration. Because it has limited oil exploration investment capital, Cuba has been forced to open up oil exploration activities to foreigners in a bid to boost production. As the result of increased foreign investment, oil production has increased, but Cuba is a long way from being self-sufficient. The Chinese investment in Cuba's oil sector is a new development—of 16 economic cooperation agreements signed during Hu's visit in November 2004, only one related to energy—a triangular arrangement for export of Venezuelan coal to Cuba which would be used to generate electricity for a Chinese steel mill. Currently joint venture projects with foreign firms account for 60 percent of Cuba's crude production. Cuba can now generate most of its electricity with its own oil and provides for about a half of its total fuel consumption. Cuba still imports around 100,000 barrels a day, of which 53,000 comes from Venezuela.⁴⁹

CONCLUSION

As discussed above, China's recent overtures in Latin America thus represent the new importance with which Beijing views the region. Trade, diplomacy, energy, and geopolitics all figure heavily in China's attempts to extend its influence in the western hemisphere. On occasion, the lack of a strong U.S. presence has aided Beijing's efforts. I am hopeful that today's hearing will clarify China's goals and intentions in Latin America as well as their implications for U.S. interests in the region.

Mr. BURTON. Thank you very much.

Mr. Brookes.

TESTIMONY OF MR. PETER T.R. BROOKES, SENIOR FELLOW, THE HERITAGE FOUNDATION

Mr. BROOKES. Thank you, Mr. Chairman. It is an honor and a privilege to appear before you here today, and I spent a number of years on this Committee. It is good to see a picture of Chairman Ben Gilman up there on the wall, whom I worked for for a number of years.

⁴⁶ Pearson, November 23, 2004.

⁴⁷ Hawkins, February 3, 2005.

⁴⁸ Simon Romero, "Oil Find Hints at a Less Dependent Cuba," *New York Times*, January 11, 2005.

⁴⁹ Kerr, *op. cit.*

I want to commend you for holding this very timely hearing, and I am testifying today as an individual and my views are my own and do not reflect that of my employer, The Heritage Foundation. I have submitted a statement for the record, and I will summarize quickly.

I am going to start out talking about China, and get a sense of what China's grand strategy is, and then apply it to Latin America. China is a rising power in world politics. In fact, some would argue that China is no longer a rising power but is actually a risen power.

China's leaders believe that it is on a trajectory that will enable it to challenge the world's most powerful nations, including the United States, for control of the international system. China is well on its way to doing just that.

China today is the world's most populous nation, has the world's second largest economy, and the world's second largest defense budget, allowing China to play key central roles in Asian geopolitics.

But China is also becoming an increasingly important player on the world stage. It is almost hard to find an international issue today in which China is not playing a role. From weapons proliferation to human rights to energy security to North Korea, Iran, Sudan, the United Nations, China is present, and Beijing is increasingly confident of its high profile role in world politics.

With increasingly well-developed power derived from economic growth, political stability and growing military capability, China sees its reemergence as a global power on its own terms, as a certainty.

A subset of China's grand strategy is an opportunistic foreign policy aimed at its main competitor for preeminence in the international system: The United States. China is pursuing a foreign policy which aims to support China's national interests while attempting to balance or perhaps more accurately, unbalance the predominance of the United States across the globe.

China is looking to quietly use its growing economic strength to build new political relationships abroad while exploiting dissatisfaction with the United States wherever possible. Eventually, in Beijing's estimation, once China has gathered as many allies and friends as possible and developed its economic and military strength to near that of other major powers, it will be able to challenge the United States directly if necessary.

Put simply, China is using its burgeoning economic power to gain political and economic influence internationally at America's expense wherever possible in an effort to succeed the United States as the world's most powerful nation.

China is pursuing a realist foreign policy in order to advance its national interests. The existence of dissatisfaction with Washington or American policies in global powers only makes it easier.

China's grand strategy certainly applies to Latin America and the Caribbean too. The importance of Latin America and the Caribbean to China is multi-fold, but two issues predominate: Taiwan and access to raw materials, especially energy.

On Taiwan, the PRC will not feel its rise to power is complete without returning Taiwan to the Mainland's political control. As

such, China is employing every instrument of its national power to effect unification with Taiwan, including an unwillingness to renounce the use of force to resolve Taiwan's future.

One of China's tactics is an effort to politically isolate Taiwan internationally by enticing countries that currently diplomatically recognize Taiwan to shift allegiances to the PRC, and we have talked about that in Central and Latin America, and the Caribbean as well.

For Taiwan, the States of Central America and the Caribbean and Paraguay represent a relatively solid regional commitment to its status as a state separate from China. This is important to Taiwan.

On resources, China's other interest, not surprisingly is access to natural resources, especially energy. This has been well discussed today. Since China's Government is not popularly elected, its claim for legitimacy has been its ability to improve the standard of living for the 1.3 billion Chinese people. Stoking the economic furnaces also allows China to continue its unprecedented military buildup supported primarily by Russian arms sales and to provide overseas aid, often without conditions, to countries of interest in an effort to spread its influence.

Obviously petroleum leads the list of resources in South and Latin America, and in the Caribbean, that China is interested in, and we have talked about that. China is particularly interested in Venezuela, Ecuador, Argentina, Colombia and Mexico.

During his visits to Brazil and Argentina, as has been discussed previously, in November 2004, Chinese President Hu Jintao announced plans to invest \$100 billion in Latin America over the next decade. These investments made by the Chinese Government will undoubtedly bring political influence as well.

China is also on a military diplomacy offensive across the globe. Chinese uses military exchanges to gather information on the host country as well as other countries if possible for military doctrine development as well as military intelligence purposes.

China has military and security interests in Latin America as well. China's presence at signals intelligence facilities in Cuba directed at the United States is longstanding and well known, but China is also establishing military ties in Latin America as well. For example, in 2004, the Chinese defense minister visited both Brazil and Cuba, and since the late 1990s, at least one high-level visit has taken place every year to Venezuela.

In addition, Chinese intelligence services are undoubtedly active in Latin America and the Caribbean using Chinese front companies, students, visitors and intelligence officers to steal and exploit technology and commercial secrets of interest to enhance their military prowess and economic competitiveness.

In conclusion, China has achieved unparalleled growth in its power, influence and importance over the last 20 years. Its grand strategy is to become the premier power in the Pacific, and in the world, replacing the United States as the world's most powerful nation. Though that point is not here today, China is making progress on both accounts. The PRC is seeking friends and alliances to advance its agenda in Asia, Europe, Africa, the Middle East, and Latin America, and I commend to the Committee—maybe not this

Subcommittee—that they look at China’s involvement in other parts of the world, including Africa, which is a very interesting study in itself.

Like most other nations, China is committed to improving the performance of its economy and spreading its political influence. Its actions are worrisome in Latin America and the Caribbean because some national leaders, such as Venezuela’s Hugo Chavez, welcome the arrival of another world power to offer an alternative to the United States.

There are challenges to China’s advances in Latin America and the Caribbean, including geographic proximity, culture and language. But if Washington wants to neutralize China’s growing influence in the Western Hemisphere, it needs to take action.

An effective strategy would include expanding its own free trade network, helping friendly nations develop strong market economies, fostering closer, more cooperative security relations with our Latin American and Caribbean neighbors.

Thank you, Mr. Chairman, I will conclude my remarks at this point. Thank you.

[The prepared statement of Mr. Brookes follows:]

PREPARED STATEMENT OF MR. PETER T.R. BROOKES, SENIOR FELLOW, THE HERITAGE FOUNDATION

Mr. Chairman, Members of the Committee, it is an honor and privilege to appear before you today to discuss the People Republic of China’s influence in the Western Hemisphere.

I want to commend you for holding this very timely hearing as there are many questions being asked about China’s growing role in our hemisphere that should be addressed in a prestigious, open forum such as this.

I am testifying here today as an individual, and my views do not necessarily reflect the views of my employer, The Heritage Foundation.

China’s Grand Strategy

When China unleashed its unprecedented economic reforms almost 20 years ago, no one could have imagined the effect it would have on China—or the world.

Finally freed from the shackles of an inefficient Soviet-style command economy, China would experience a remarkable expansion in economic growth, including near double-digit growth for the last ten years (according to Chinese government statistics.)

These economic reforms have transformed China into a rising power in world politics. In fact, some would argue that, today, China is no longer a “rising power”—but a “risen power.”

Chinese leaders believe that if its economic growth continues apace, China will overcome 150 years of “humiliation” at the hands of foreign powers, returning to its past glory as the “Middle Kingdom.”

In China’s view, eventually this economic growth will allow it to be able to challenge, the world’s most powerful nations, including the United States, for control of the international system.

China is well on its way to doing just that. Today, China, the world’s most populous nation, also has the world’s second largest economy and the world’s second largest defense budget, allowing China to play key, central roles in Asian geopolitics.

But China is also becoming an increasingly important player on the world stage. Although it has long been a permanent member of the U.N. Security Council, and a nuclear weapons state, its expanding economic might is resulting in growing political influence beyond Asia as well.

It is hard to find a major international issue in which China is not playing a role: From weapons proliferation, to human rights, to energy security, to North Korea, Iran, Sudan, and the United Nations—China is present. And Beijing is increasingly confident of its high profile role in world politics.

With increasingly well-developed power derived from economic growth, political stability, and a growing military capability, China sees its re-emergence as a global power, on its own terms, as a certainty.

If all goes according to Beijing's plans, in the next few decades China will take its "rightful place" among the great powers in the international system—if not atop the international system.

A subset of China's grand strategy is an "opportunistic" foreign policy aimed at its main competition for pre-eminence in the international system, the United States. China is pursuing a foreign policy, which aims to support China's national interests, while attempting to balance—or, perhaps, more accurately, unbalance—the predominance of the United States across the globe.

China is looking to "quietly" use its growing economic strength to build new political relationships abroad, while exploiting dissatisfaction with the United States wherever possible.

Eventually, in Beijing's estimation, once China has gathered as many allies and friends as possible, and developed its economic and military strength to near that of other major powers, it will be able to challenge the United States directly, if necessary.

Put simply: China is using its burgeoning economic power to gain political and economic influence internationally, at America's expense wherever possible, in an effort to succeed the U.S. as the world's most powerful nation.

For example, China has indicated that it would not support taking Iran to the U.N. Security Council over its nuclear (weapons) program, while signing a 25-year, \$100 billion oil/gas deal with Iran. China's decision obviously pleased Tehran.

Likewise, China also worked hard against a strong U.N. resolution on the genocide in Sudan, which would have placed economic sanction on the Sudanese government, in an effort to protect its \$3 billion oil investment there. Khartoum could not have been happier with China's support.

And the PRC has taken advantage of trans-Atlantic tensions arising from the Iraq war, too. China has seemingly convinced the European Union, led by France and Germany, to lift the E.U.'s 1989 Tiananmen Square arms embargo.

China wants absolution for the Tiananmen Square crackdown and Europe hopes that ending the ban will result in large commercial deals, and, perhaps, arms deals, for European firms. The U.S. strongly opposes lifting the ban.

Bottom line: China is pursuing a "realist" foreign policy in order to advance its national interests. The existence of dissatisfaction with Washington or American policies in global capitals only makes it easier. China's grand strategy certainly applies to Latin America and the Caribbean, too.

China's Grand Strategy in the Western Hemisphere

The importance of Latin America and the Caribbean to China is multifold, but two issues predominate: Taiwan and access to raw materials, especially energy.

Taiwan

The PRC will not feel its rise to power is complete without returning Taiwan to the Mainland's political control. Taiwan and China have been separated since the 1949 civil war, and it is Beijing's view that Taiwan is a "renegade province" that must be "re-unified" with the PRC.

To the tremendous frustration of the PRC, the Chinese view of Taiwan's sovereignty is increasingly in the minority of public opinion on Taiwan. As such, China is employing every instrument of its national power to effect unification with Taiwan, including an unwillingness to renounce the use of force to resolve Taiwan's future.

One of China's tactics is an effort to politically isolate Taiwan internationally by enticing countries that currently diplomatically recognize Taiwan to shift allegiances to the PRC. The majority of the countries that recognize Taiwan are in Latin America, Africa and the Pacific Islands.

Presently, six nations in Central America—Panama, Costa Rica, Nicaragua, El Salvador, Honduras and Guatemala—retain full diplomatic relations with Taiwan. Beginning with Chile in 1970, all but one South American state—Paraguay—have moved to recognize Beijing.

In the Caribbean, the Dominican Republic, Haiti, St. Kitts and Nevis, and St. Vincent and the Grenadines have relations with Taiwan. Dominica switched allegiances to the PRC last year.

For Taiwan, the states of Central America and the Caribbean, and Paraguay represent a relatively solid regional commitment to its status as a state separate from China. These states represent nearly half of Taiwan's diplomatic recognition around the world, now totaling 25 nations.

Taiwan pays dearly to retain this diplomatic recognition, and if these states were to switch recognition from Taipei to Beijing, the damage to Taiwan's political con-

fidence and its claims of legitimacy as a state would be seriously undermined in Taipei's estimation.

Resources

China's other interest, not surprisingly, is access to natural resources, especially energy. China is scouring the planet for resources to feed its economy's insatiable appetite for raw materials. Since China's government is not popularly elected, its claim to legitimacy has been its ability to improve the standard of living of the 1.3 billion Chinese people.

Stoking the economic furnaces also allows China to continue its unprecedented military build-up, supported primarily by Russian arms sales, and to provide overseas aid—often without conditions—to countries of interest in an effort to spread its influence.

China is broadly diversifying its energy sources, too. It is trying to reduce its reliance on coal, which has made China the world's second largest polluter. In its effort to ensure consistent energy supplies, China is expected to divert its overseas investments outside the Middle East to Russia, Southeast Asia (e.g., Indonesia, Burma), Central Asia (e.g., Kazakhstan, Uzbekistan), Africa (e.g., Angola, Sudan), and Latin American (e.g., Colombia, Venezuela).

Petroleum leads the list of resources South American states have to offer China. Venezuela is the world's fifth largest producer of petroleum that produces 2.5 million barrels per day, providing the United States with 13–15 percent of its oil imports.

China has invested over \$1 billion in petroleum projects in Venezuela and is positioning itself to invest nearly \$350 million to extract oil from eastern Venezuelan oil fields, as well as an additional \$60 million in natural gas wells. China is also seeking to purchase petroleum from Ecuador, Argentina, Colombia, and Mexico.

Latin America is an important source of a variety of minerals and food items as well. Aluminum, copper, iron, and soybeans constitute a large part of China's imports from Latin America. For commercial purposes, China also obviously has a strong interest in the Panama Canal and access to good port facilities in the Caribbean.

During his visits to Brazil and Argentina in November 2004, Chinese President Hu Jintao announced plans to invest \$100 billion in Latin America over the next decade, primarily for infrastructure and energy projects. These investments made by the Chinese government will undoubtedly bring political influence as well.

Military and Security Issues

China is also on a military diplomacy offensive across the globe. China has formed military diplomatic ties with 146 countries and sent military attaches to 103 countries. China uses these exchanges to gather information on the host country, as well as other countries if possible, for military doctrine development as well as military intelligence purposes.

In 2004, more than 100 military exchange programs took place, involving Chinese military leaders visiting more than 60 countries and senior officers from about 50 countries visiting China. Some exchange programs featured joint military exercises, security sessions involving military officers from multiple countries, combined seminars on defense and security, and field trips.

China has military and security interests in Latin America as well. China's presence at Signals Intelligence (SIGINT) facilities in Cuba directed at the United States is long-standing and well known, but China is establishing military ties in Latin America as well.

For example, in 2004, Defense Minister Cao Gangchuan paid a visit to Brazil. In April 2004, Vice-Chairman of the Central Military Commission Xu Caihou visited Cuba and called on Cuban military units and training centers. Since the late 1990s, at least one high-level visit has taken place every year to Venezuela.

In addition, Chinese intelligence services are, undoubtedly, active in Latin America and the Caribbean, using Chinese front companies, students, visitors and intelligence officers to steal and exploit technology and commercial secrets of interest to enhance their military prowess and economic competitiveness.

Conclusion

China has achieved unparalleled growth in its power, influence and importance over the last 20 years. Its grand strategy is to become the pre-eminent power in the Pacific—and in the world—replacing the United States as the world's most powerful nation.

Though that point is not here today, China is making progress on both accounts. The PRC is seeking friends and allies to advance its agenda in Asia, Europe, Africa, the Middle East—and Latin America.

Like most other nations, China is committed to improving the performance of its economy and spreading its political influence. Its actions are worrisome in Latin America and the Caribbean because some national leaders, such as Venezuela's Hugo Chavez, welcome the arrival of another world power to offer an alternative to the United States.

There are challenges to China's advance in Latin America and the Caribbean, including geographic proximity, culture and language. But if Washington wants to neutralize China's growing influence in Western Hemisphere, it needs to take action.

An effective strategy would include expanding its own free trade network, helping friendly nations develop strong market economies, and fostering closer, more cooperative security relations with our Latin American and Caribbean neighbors.

Thank you, Mr. Chairman, for this opportunity to address the Committee.

Mr. BURTON. Thank you, Mr. Brookes. Welcome back.

Ms. Watson.

**TESTIMONY OF CYNTHIA WATSON, PH.D., PROFESSOR OF
STRATEGY, NATIONAL WAR COLLEGE**

Ms. WATSON. Mr. Chairman, Mr. Menendez, thank you for this opportunity to come speak with you this afternoon.

I would like to start out by saying I represent only my own views, not the view of The National War College or the National Defense University.

Secondly, you have my full statement. I would ask that it be entered into the record in full.

I would like to make five points about China's involvement in Latin America. I do this based on having spent my sabbatical last year looking at this very question, but I have a fairly different view than the two prior speakers on this point.

Number one, I think that we are at the present point not seeing a serious threat from China in its involvement in Latin America. What I think China is doing is building long-term links and bridges to the region that it can use in the future. I do not think that today I would identify China as a major threat to the United States in this region. I simply do not see what the basis to that would be.

Secondly, I think China is calibrating its relationship with Latin America very carefully in order to maintain and keep alive the strong economic ties that Commissioner Teufel-Dreyer mentioned earlier.

The major concern that Beijing has today is to keep the growth going that has made China this very dynamic economy that we all talk about. The only way they can continue to do that is to not become a target of Washington's concerns. China is very aware of that. I think that they are keeping a relatively low profile in this region compared to what they could be doing, and I think it is very deliberate on their part, and I do not see any indication that it is going to change.

What is my evidence for that? A couple of things.

I think that when you look at the most recent trip that Hu Jintao took to the region in connection to the Santiago Summit last November, he chose not to go to Caracas knowing that would upset Washington, knowing that was something that would get more attention here.

Yes, he chose to go to Havana, but for many people in the United States, they simply write Havana off as a serious threat in any case.

But the decision not to go to Caracas as opposed to the decision that Jiang Zemin had in April 2001, when he did go to Caracas, I think, is one significant indicator.

My third point is that I believe a lot of what we are seeing, a lot of the attention that this is gaining right now is fairly superficial, and what I mean by that is, yes, Hu Jintao made a very successful trip through the region. He got on TV a lot. I have described in my testimony that I believe you would say that there was almost a giddiness in Latin America resulting from his visit, but that was more because of the novelty factor than anything else.

Yes, there were some agreements signed, but the Chinese, as my two prior predecessor speakers have said, have a habit of not always coming through in significant ways with some of their agreements.

That press coverage was contrasted dramatically with President Bush's visit at the same time to the region which consisted only of going to Santiago and then going to an island off the coast of Catahana, Colombia instead of spending a lot of time in some of the major capitols of the region. That is not saying that Hu's visit was not welcomed, it was, but I just think that a lot of the attention that this is getting is somewhat overblown.

And then I would make two more points. One is, I think we have neglected in this discussion so far, both on the prior panel and on our panel, the real heart of where the interests China will have in this region is, and that is Brazil.

Brazil is the economic superpower of Latin America. Brazil is the state that provides the food that China desperately wants to buy now so they can get people off the inefficient farms in China. They want to be able to buy food and Brazil is becoming more efficient at providing food as is the rest of Latin America.

Brazil has the space interests that China would like to cultivate as well. Brazil has some energy projects. The heart of our concern about this region actually would need to be on Brazil, not on Venezuela, not on Cuba, and I do not think we have spent much time talking about that so far.

Then finally, on Taiwan, I have to disagree with Mr. Brookes. I think there are many things Beijing has deliberately not done to alter the position of Taiwan. Yes, I absolutely agree that if Beijing had its way there is no question that they would like to see all the Central American States and Paraguay put their recognition in Beijing instead of in Taipei.

However, what they have not done in Beijing is they have not provided the incentives for these states to do that. They are far more fiscally able to do that today than Taiwan is, and I think that is a further indication that they want to keep this relationship just below the radar screen, to keep Washington from having hearings like this and paying attention.

That does not mean I won't have a concern 20 years from now, and I think many of the steps people have advocated need to be taken, but I just do not think today that the threat is nearly as great as, obviously, some people do.

Thank you.

[The prepared statement of Ms. Watson follows:]

PREPARED STATEMENT OF CYNTHIA WATSON, PH.D., PROFESSOR OF STRATEGY,
NATIONAL WAR COLLEGE

Mr. Chairman and Members of the Subcommittee: I welcome this opportunity to share the results of my study of growing Chinese involvement in Latin America. This study coincides with concerns about improving Chinese economic, diplomatic, and military capabilities around the world at the same time that U.S. ties with its neighbors in the hemisphere are fraying. While I do not believe that Chinese involvement currently indicates a serious threat to the security of the United States, I believe that Beijing seeks to establish networks which will benefit its interests for the long term, possibly to the detriment of U.S. security.

The recent spate of press reports on China's growing energy and natural resource consumption is an initial explanation for Beijing's growing interest in South America. While the continent remains at least fourth on China's list of priorities, the vast array of natural resources available, coupled with a growing population eager to increase its consumption of goods, makes Latin America ever more enticing. The People's Republic of China (PRC) seeks to put a modest investment in diplomatic, military, cultural, and trade relations for a possible long-term gain of significant proportion.

Beijing has expanded its role in South America since 1970, although the six nations of Central America, with their small populations and predominantly agricultural-export economies, retain diplomatic recognition of Taiwan. Prior to 1970, only Cuba maintained diplomatic ties—and ideological solidarity—with the PRC, after Castro transferred his allegiance in 1960. Beginning with Chile in 1970, however, all but one South American state have moved to recognize Beijing as the capital of China instead of Taipei. Paraguay has been the sole outpost for Taiwan since Uruguay finally abandoned Taipei in favor of Beijing in 1988.

For much of the past thirty years, China's ties with South American states have come in fourth place, behind growing interests in bilateral relations with the Pacific Rim (especially United States and Southeast Asia), European, and African states. The last of these is a region with which China could pretend "Third World solidarity" and considerably influence in the absence of competitors. Trade with South America has grown slowly, because Beijing's interests have been elsewhere. At the same time, the region has been absorbed first, with the trauma of the "external debt crisis" (1980–1989) and then the giddiness, followed by profound disappointment, of the "marketization-democratization" processes of the 1990s. Along with these processes were the implied expectations that Washington, absolved of the Cold War requirements, would finally turn its attention to the long-desired partnerships with states in its own hemisphere. The 1990 "Free Trade Zone of the Americas" proposal by the first President Bush, followed by the ratification of the North American Free Trade Agreement (NAFTA) and 1994 Miami Summit commitment to finalise a free trade pact for the entire region, were initial indications that Washington would finally carry out its word. Instead, the 1990s turned into a period of severe disappointment as free markets led to rampant corruption and unfulfilled expectations in Latin America while Washington became the world's superpower rather than a partner for the region. In short, neither side of the western hemisphere had a pressing reason to raise the other in its list of priority relationships.

Many U.S. analysts were startled when PRC President Jiang Zemin embarked on a tour of South America as the EP-3 incident unfolded in early April 2001. A constant stream of senior People's Liberation Army (PLA) officers and PRC political leaders had been arriving in various South American capitals for many years. (Indeed, Latin American military officers had long been welcomed to the PLA's National Defense University foreign course for professional military education when officers from the "western world" were not welcome to Beijing.) Jiang's willingness to be out of the country at a time of such sensitive negotiations with Washington indicated not only his confidence in the political and diplomatic leadership left behind in Beijing, but the importance he attached to China's relations with South America. The trip to Chile, Argentina, Brazil, Venezuela and Cuba sent that message to these states. A string of meetings between senior officials from the region and the PRC followed Jiang's 2001 visit. Defense Minister General Chi Haotian held talks with Colombian and Venezuelan defense authorities and National People's Congress head Li Peng spent significant time in Uruguay, Argentina, and Cuba during a three-week trip abroad. A host of South American military and political leaders regularly make their way to the PRC for talks on trade, investment, military exchanges, and political ties.

In November 2004, both Presidents Hu Jintao and George W. Bush visited the region in conjunction with the APEC summit in Santiago. What was most noteworthy about these visits was Chinese President Hu Jintao's visit to four Latin

American countries rather than the summit itself. While President Hu met with President George W. Bush for fifty minutes in one of the first foreign discussions the latter has had since his reelection victory, the meeting was anticlimactic compared with the interest that Hu's tour generated in the region. Hu's was not the first visit by a Chinese president but China remains an exotic place in the Latin American mind. The historical connections which China has long had with Africa, for example, have not existed with Latin America even though the majority of regional states shifted diplomatic recognition from Taipei to Beijing as early as 1970. The ties between Beijing and Latin American states have remained relatively low-keyed. Latin America, particularly Brazil, has had a history of some Chinese immigration but at a miniscule level compared with that of Italy, Germany or other European states. Latin America just hasn't had China much on its mind.

Two fundamental shifts, one on each side of the Pacific, have made this infatuation with Hu and China possible. On the Chinese side, energy requirements have grown, along with Beijing's increasing global presence and confidence. Beijing routinely has major delegations visiting states around the world.

Hu's visit to Latin America was seen in China as an unexceptional event in conjunction with a major world meeting of interest to the People's Republic. Fear of a negative U.S. reaction was not a concern; the trip through Brazil, Argentina, Chile and even Cuba attracted little attention in the United States, generating some curiosity on the part of regional specialists, but not the sustained concern one might have expected if U.S. attention was not consumed by events in southwest Asia and the Middle East.

For Latin America, long impatience with U.S. neglect translated into virtual giddiness at the Chinese leader's appearance in the region. The contrast between President Hu's triumphant week-long tour of the region contrasted starkly with President George W. Bush's limited time in Santiago, followed by four hours on an island off the Colombian coast. Additionally, the protesters who filled the Santiago's streets indicated that the U.S. President's message was not welcome in Latin America. Ironically, Hu Jintao's vision of greater economic, financial, trade, and technology ties was precisely the sort of engagement that Latin America has long wanted from Washington.

Latin America was ready to welcome someone who came with a smile and an outstretched hand, rather than the lecture and wagging finger Latins have received from so many high level U.S. visits.

While Latin American sky-high expectations of enhanced ties with Beijing are probably exaggerated and likely to lead to disillusionment, the partner in this case is fresh and hence likely to be forgiven if it does not come through immediately. After all, Latin America has awaited Washington's attention for generations. Surely, some will argue, China merits some time to get serious about its long-term interest in greater economic and political interaction with Latin America.

Beijing will not fully meet the expectations of Latin Americans because the leadership appears to be calibrating carefully its involvement in the region. Hu visited Fidel Castro's Havana but it was a low-key affair concentrating on possible biotechnology sharing between the two regimes. This did not even attract much attention. That Hu did not include oil-rich but politically unstable Venezuela on his itinerary is a key indicator. In 2001, Jiang Zemin stopped in Caracas on his extended tour of the region. That preceded the 2002 coup attempt where Washington appeared to be on the wrong side (supporting the coupmeisters) and has led to a terrible state of affairs between Caracas and Washington. While Hu would like to solidify ties with Venezuela to increase the access to petroleum supplies, he delicately avoided that stop. By meeting with President Hugo Chávez Frías, the Chinese would have attracted much more attention and potentially negative consequences. Additionally, Hu chose not to visit Colombia where there are many resources, including petroleum that interest Beijing, but President Bush has his strongest regional ally in Alvaro Uribe Vélez.

Despite seven decades of attempting to industrialize their economies, South American states still depend almost entirely on exporting raw materials and light processed goods. Brazil is the exception, having worked assiduously over the past twenty years to develop an autonomous space program, with an equatorial launch site that appeals strongly to Beijing. Petroleum leads the list of resources South American states have to offer the PRC. Despite the erratic nature of its current government, led by the virulently anti-U.S. President Hugo Chávez Frías, Venezuela is an important source of energy to China. Beijing has invested over \$1 billion in the nation and seeks to maintain good, even warm, relations with Caracas, primarily to take advantage of orimulsion, a Venezuelan petroleum product. China also seeks to buy petroleum elsewhere in Latin America, which may contain as much as 14% of the recoverable petroleum deposits in the world.

Ecuador is another particular target of PRC petroleum interests, who hope to sign exploration agreements which will lead to a "strategic alliance" between the two states. China has also shown interest in projects in Argentina, Colombia, and Mexico. Quito, however, has moved with great caution for fear that such an agreement might leave the country too dependent upon SINOPEC, China's leading overseas petroleum investor. The Ecuadoran response highlights the residual concern that smaller states have of Chinese investment becoming so significant that it will create a dependence that South American states ardently hope to avoid.

However, Latin America does not interest Beijing solely for energy resources; the region is an important source of a variety of other minerals and foodstuffs. Brazilian president Luiz Inacio "Lula" da Silva's May 2004 state visit to China highlighted the range of desirable items beyond petroleum, including uranium, soybeans, and aircraft. Indeed, one of the changes in China that has received little attention in the outside world is how China will feed itself. As China works to decrease its dependence upon a highly inefficient agricultural sector, food for the vast population is increasingly important. Buying that food from abroad, especially the successful agricultural products of Latin America, is a logical trade item for China and the region. As Latin American states are increasingly efficient at producing food, Beijing can buy at a more reasonable price than trying to reform agriculture at home.

South America is important for two other reasons as well. Brazil and Surinam, a remote and oft-forgotten state in the northeast of the continent, both offer space launch facilities with geography far superior to anything available in China. While ties to these states have not fully developed, the likelihood of Beijing increasing its interests there is high.

Additionally, South America is a region with which the PRC has a natural affiliation in its traditional role as "protector of the Third World." The South American experience with colonial and U.S. interventions over the past century has made Beijing's search for like-minded states to create a block in the international community to protect sovereignty against "hegemony" an attractive prospect. This is a natural area for ties to grow, as the power of the United States is so important to both the PRC and Latin America. It is easy for U.S. strategists to underestimate the importance of national prestige for all of these states. Informal alliances in organizations such as the United Nations, allow voting blocks to deliver messages otherwise difficult to convey to a hyperpower accused of unilateralism.

People frequently ask me about Beijing's interests in the Panama Canal because Hutchinson-Whampoa, a company long-associated with the PLA. I do not find Hutchinson-Whampoa involvement in the Canal particularly significant for two important reasons. First, with the changes taking place in the PRC in the 1990s, the PLA has been pressured to discontinue most of its financial links with non-military activities such as Hutchinson. In exchange for withdrawing from the commercial sector, the PLA has seen hefty increases in its budget for the past decade. More significantly, Panama still retains recognition of Taiwan as the government of China. Indeed, Panama is seen by Taipei as 'the jewel in the crown' of its formal allies around the world. If Beijing were as able to control Hutchinson as is widely assumed, the first thing it would have done is to pressure Panama to switch recognition from Taipei. That symbolism is something that bothers Beijing profoundly and they would have moved quickly to remedy the 'problem' that currently exists.

Finally, Beijing maintains a minor interest in Latin America because of increasing concerns about "Triad" activities in the Tri-border area (where Brazil, Argentina and Paraguay meet) as well as in Paraguay itself. Criminal syndicates operating in the area have been cited in international law enforcement's concerns about the growing transnational illegal activities in the Tri-border area. Beijing monitors this activity but has little control, since it does not have relations with Paraguay and the problem is not yet a major threat in the eyes of Buenos Aires or Brasilia.

The future relationship

The potential for longer-term rivalry between China and Brazil, the likely South American leader, is currently ignored for the sake of creating better ties, as evidenced by President Lula's recent visit to the PRC. Beijing's path to increased interest and influence in Latin America will be marked by many bumps along the way. Latin America is an area of growing, logical interest to Beijing, but there is no reason to believe the southern hemisphere states will suddenly leap to the top of Beijing's priority list. The region may also grow skeptical of Beijing as the latter's power grows, and it assumes roles more in keeping with a superpower than a victimized state. Latin America is highly sensitive to states that can violate sovereignty issues at will, the essence of hyperpower status.

Beijing's interests in Latin America also include its quest to isolate Taiwan further by enticing Latin American nations to shift diplomatic recognition from Taipei

to Beijing. Six Central American states, and Paraguay, recognize Taiwan as the government of China but Beijing will undoubtedly try to change that equation in the future as it continues pressuring Taiwan to abandon independence goals.

None of this is good news for Taiwan in the region. While the Hu visit focused on strengthening ties with South American states, it also emphasized how little Taiwan presence there is in that hemisphere, Paraguay being the sole state formally to recognize Taiwan instead of Beijing. Taiwan has given some indications that it hoped that other South American states might join those which recognize it by helping Taiwan with entry into various international organizations or pressing Beijing to accept Taiwan as a state. The success of Hu's visit made this already extremely remote possibility disappear in the reality of South American states embracing Beijing wholeheartedly.

Latin America probably read too much into Hu's tour, but it was a highly successful visit by the Chinese leader. Beijing must now calibrate subsequent ties to maximize Chinese economic benefits from the region without alarming Washington. This will be an interesting test of the sophistication of Chinese strategy in Latin America.

For the immediate and intermediate term, Beijing will do nothing to upset its trade relationship with the United States. The access to the U.S. market far outweighs any possible benefits that China might gain from greater relations with Latin America, including access to Venezuelan petroleum. The desire to continue the economic growth that has given the Communist Party its ability to claim successes, hence keeping it in power, would be seriously undercut by any actions that caused Washington to shut off that market access. This risk is too high for the Party to take and this is a conscious calculation on the part of the Chinese leadership.

But, Beijing remains interested in exploiting all cracks in the Latin American system which would allow them access. These cracks may be microscopic, such as a relatively low level trade visit, or considerably greater, to include more visits by the heads of state from the region. Beijing can simply wait for the Latin American leadership to make the first moves and respond appropriately since the Latin American leadership is increasingly reacting to its growing frustration with the state of the overall regional ties with Washington. As long as Washington continues to promote democracy and free trade in the Middle East to the perceived exclusion of Latin America, this region is going to reach to China as a market and as a counterbalance to the United States. While Latin America seeks to create this balance in an effort to get Washington's attention, it will increasingly benefit Beijing's goals of finding new markets, new sources of raw materials, food, and energy resources while also strengthening ties with a portion of the world where Beijing has had little historical connection but where ties in the future look lucrative and encouraging.

Mr. BURTON. Thank you.

Mr. Roett.

TESTIMONY OF RIORDAN ROETT, PH.D., SARITA AND DON JOHNSTON PROFESSOR OF POLITICAL SCIENCE AND DIRECTOR OF WESTERN HEMISPHERE STUDIES, PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES, JOHNS HOPKINS UNIVERSITY

Mr. ROETT. Thank you, Mr. Chairman.

I do have something to say about China and Latin America, but allow me to build briefly on the comments from the first panel. Three points very quickly.

I think it is perfectly reasonable to sack Chavez and Castro in the same bag. I would hope that we would not put Lula, Kirchner and Vasquez, Brazil, Argentina and Uruguay in that same bag. They do not deserve to be placed there, indeed, Secretary Rumsfeld's visit to Argentina and Brazil just recently indicated how very strong the appreciation is of the Bush Administration for the help that Argentina and Brazil have provided in Haiti and elsewhere. So I think we need to be nuanced in terms of our classifications of the various regimes. Brazil, Argentina and Uruguay are fiscally conservative but socially progressive, and I would welcome that as the International Monetary Fund and the World Bank.

Second, we have real problems in the region, Mr. Chairman. Daniel Ortega is standing for the fourth time for the presidency of Nicaragua. Mr. Bucaram, known as “El Loco” (The Crazy), has returned from Panama and to Ecuador and may well be the next President of Ecuador.

In Bolivia, we have very serious problems with Eva Morales who leads the Cocolares and heads the MAS party, and could become the next President of Bolivia. The Andes are on fire, Mr. Chairman, and I do not think we have a policy to address those very important issues.

And finally, in part they are on fire because the so-called Washington consensus of the 1990s has failed miserably. There is a reaction against privatization. Income distribution is as bad as it was in the 1980s, and social inequity is probably worse. Therefore, the indigenous movements we are seeing in the Andean countries—Koni and Ecuador and elsewhere—are real issues that need to be faced by the United States, and I do not see that we have, yet, a constructive policy to do so, and we need to be concerned more about that issue, I think.

And I will now turn to China, then China in the Americas. I would comment on three aspects of China’s emergence as a key player in global affairs.

First, we must look at China in the broad strategic and global context, extraordinarily important, and the White House understands that.

Second, in the Western Hemisphere, it is not going to be a major focus of Chinese diplomacy in the short- to medium-term. I do know what it will be in the long-term, but not in the short- to medium-term. China has demonstrated a strong desire for countries in the hemisphere to recognize the one-China policy—perfectly reasonably diplomatic issue, it seems to me—and they are moving to consolidate their access to energy resources given their growth, strategy, and their growth potential. That too, it seems to me, is reasonable.

Finally, China is offering an important alternative to the United States. They do not have deficits in China, their reserves allow them to do things in South America that the United States cannot afford to do, which is an extraordinarily important issue. Competitiveness, infrastructure investment means Latin America will become more competitive. We are not building the bridges. We are not building the railroads. We are not improving the port. The Chinese may well be for selfish reasons, but the outcome will be a better competitive position for the Latin American countries in the world economy.

China is emerging as a key player in world politics and the United States is the natural interlocutory with Beijing. Common concerns are the political and security dynamics in Asia and from all of the comments, including Secretary Wolfowitz and others, China has played a very constructive role recently in the security issues in Asia.

The United States needs China to talk in the Six-Party Talks framework about North Korea and nuclear crisis, and a critical issue for us is China must play a very, very important role, and

most importantly, the United States has a constructive and productive relationship with Beijing.

For the last seven Administrations, since Richard Nixon, United States policy regarding China has been to encourage China to integrate into the Western-oriented economic and diplomatic system. As we turn to China's presence in the Western Hemisphere, it is critical we consider the global context. Remember that China's emerging presence in the hemisphere is a natural evolution of that United States policy approach. Therefore not a threat to the United States, but complementary to the broader issue of integrating China into the world's system.

As the speakers have indicated, or I believe, China's principal interest in the region is indeed in energy resources. Given the Chinese growth, that is going to be the principal emphasis of China in Latin America, as it is in Africa, and that will remain a reality for a number of years.

As Dr. Watson pointed out, the interests of China in the region began in April 2001, with the former President's visit to the region. My impression is that the fourth generation of Chinese leadership is a bright, smart, intelligent group, and that was demonstrated by Hu Jintao's visit in November 2004. Not only did Hu Jintao sign a number of agreements with the major countries in the region, he got them to admit to market economy status for the country. But most important, and not followed up in the press, there was a follow-up visit in January 2005 by the Vice President. Vice President Zeng, following Hu Jintao, visited Mexico, Venezuela, Peru, Trinidad and Tobago and Jamaica.

China and the five Latin American countries signed about 50 cooperation agreements on energy, economic cooperation, transport, telecom and other fields, and the Vice President also attended the first ministerial meeting of the China-Caribbean Economic and Trade Cooperation Forum held in Jamaica, and the forum is an initiative of the Chinese.

One of the principal drivers, again, will remain access to commodities and to energy which Latin America has in abundance, and therefore in the short- to medium-term, the trade surpluses that are so critical to Latin Americans are being driven by their exports to the China market.

In my remarks, I have a number of examples of how China is indeed stressing the emphasis on energy development, access to Latin America's energy with the full cooperation of the Governments of Latin America, and I do not detect any sense that they fear they will be overtaken or in some way stalemated by the Chinese.

A critical issue is China and Venezuela. Mr. Chairman, if the Administration does not find a policy with regard to Venezuela, we have serious problems in the Andean countries. And the issue is not China and Venezuela, the issue is Venezuela and Hugo Chavez, and we must be very careful not to try to mix the two of them up.

The presence of China in Venezuela is energy-driven. The presence of Venezuela in the Andes is not energy-driven. There are very different objectives in the Chavez Government with regard to the Andean countries, and I think the Administration needs to be

very careful and look at that. The problem is not China, the problem is Venezuela.

Finally, given the rapid expansion of trade, commercial and investment ties between the countries of the region and China, again it is important to focus on the motivation of China in the region. The Chinese regime is engaged in a prolonged commitment to Latin American energy, natural resources, commodities. That goal will in turn require extensive investment in infrastructure, which is desperately needed to make Latin America more competitive.

To the degree that China's involvement in the region helps to stabilize economic growth by producing trade surpluses, we should welcome that. The U.S. should not view that as a threat in any way. Given the absence of a grand plan in Washington with regard to the region, this is a very important contribution in the short- to medium-term in the region.

At this time there is no evidence that China's interests in Latin America are other than diplomatic, Taiwan, and economic, the wealth of the countries in the region. A counterplan in the United States in the region would be most welcome, but that is a political decision that must be taken by the White House and by the Congress.

I would urgently support such a development in Washington, but the likelihood remains small given the realities on the ground today in our nation's capital.

Thank you.

[The prepared statement of Mr. Roett follows:]

PREPARED STATEMENT OF RIORDAN ROETT, PH.D., SARITA AND DON JOHNSTON PROFESSOR OF POLITICAL SCIENCE AND DIRECTOR OF WESTERN HEMISPHERE STUDIES, PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES, JOHNS HOPKINS UNIVERSITY

Mr. Chairman and Members of the Subcommittee:

I am honored to appear before you today to discuss the current state of play in the Chinese-Western Hemisphere relationship. I have followed the politics and foreign policies of the countries in the Western Hemisphere for more than forty years. China's interest in the region is not new, but it has increased significantly in the last few years, and the same holds true in the other direction.

Three aspects of China's emergence as a key player in international affairs in general and in the Western Hemisphere in particular stand out. First, one must look at China in the broad strategic and global context. Second, the Western Hemisphere is not likely to become a major focus of Chinese diplomacy. China has demonstrated a strong desire for countries in the hemisphere to support a "one China" policy and shift diplomatic recognition from Taiwan to Beijing as the legitimate representative of China in international affairs. But China's interest in the region is driven primarily by its rapid economic growth and its rising need for natural resources and foodstuffs. And third, for the major Latin American states, China has become an important partner in several areas, including closer trade and investment ties and collaboration in devising a new trade strategy in the context of the "Doha" Round of the World Trade Organization (WTO). The following analysis focuses on China's emergence in international affairs in the strategic context, China's growing presence in the Western Hemisphere, the China-Venezuela connection, and, finally, the Taiwan issue.

THE STRATEGIC CONTEXT

China is emerging as a key player in world politics and the United States is the natural interlocutor with Beijing. Of common concern are the political and security dynamics in Asia. The ASEAN Regional Forum (ARF) and the ASEAN +3 and ASEAN +1 processes are positive and needed steps in security policy. The Shanghai Cooperation Organization (SCO)—that now includes China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—is relatively new but a good sign of Chi-

na's commitment to multilateralism and regional security. These initiatives complement the interests of the United States in the region and should be seen as being very constructive.

The critical issue of the North Korean nuclear crisis and the six-party talks is another example of where the interests of Washington and Beijing overlap. To resolve or clarify the situation in Pyongyang is of the highest priority for the United States. China's good will and diplomatic skills are key in the ongoing process of addressing a possible nuclear threat from the North Korean regime.

A point of strong divergence between China and the United States is the U.S. presence in Iraq. Although China has demonstrated its commitment to opposing terrorism and has provided significant support to U.S. policy in Afghanistan—including sharing intelligence on and freezing assets of terrorist groups—its leadership has been skeptical and disapproving of the U.S. invasion of Iraq. More broadly, Beijing is clearly concerned over the large U.S. military presence in Central Asia and the overseas deployment of Japanese Self Defense Forces. But differences of opinion in these areas are not relevant to China's expanding role in the Western Hemisphere.

The political situation in Taiwan—the “one China” concept—remains central to Chinese foreign policy. Recent political turmoil in South Korea is on Beijing's radar screen as well. All of these foreign policy issues require mutual respect and coordination between Washington and Beijing. The emergence of China as a key player in Asia should come as no surprise to any of us. Deepening the bilateral relationship to permit policy initiatives that are complementary is of the highest priority for the United States in this century.

This is a very brief overview of the U.S.-Chinese security and diplomatic relationship. By most standards, the United States has a constructive and productive relationship with Beijing. For the last seven administrations since Richard Nixon, U.S. policy regarding China has been to encourage it to integrate into the western-oriented economic and diplomatic system. As we turn to China's presence in the Western Hemisphere, it is critical that we consider this global context and remember that China's emerging presence in the hemisphere is a natural evolution of that U.S. policy approach.

CHINA AND THE WESTERN HEMISPHERE

Is it in China's long-range interest to appear to threaten or challenge the United States in its own hemisphere? Absolutely not. Will China's presence offer benefits to our neighbors that the United States has been unable to offer? A very positive yes. China's surplus permits it to provide investment opportunities that the United States is not able to offer given our deficit situation. The United States should view the increased involvement of China in the hemisphere as an opportunity to provide needed support for infrastructure, positive trade balances, and new markets for the countries in the region.

The Western Hemisphere has not been—and will not be—the major focus of Chinese diplomacy. Relations with the United States and the European Union, Asian regional security issues, and terrorism are of higher priority and will remain so for the foreseeable future. The Chinese approach to the region is driven by its rapidly rising need for foodstuffs and natural resources created by its extraordinary rates of growth, in addition to its constant diplomatic offensive to “quarantine” Taiwan. The latter goal has been largely achieved; the former strategy is underway.

The numbers with regard to Chinese growth are staggering. China is now the world's third largest trading economy, following the United States and Germany. It is the sixth largest economy in the world and within a relatively short period of time will overtake the United Kingdom and France to place fourth. As recently as 2003, China alone accounted for one-fifth of global trade expansion. It is this extraordinary economic performance that has led Beijing to focus on the hemisphere.

The red flag went up with the April 2001 visit to Chile, Argentina, Brazil, Venezuela, and Cuba of then PRC president Jiang Zemin. A number of visits to China by senior officials in those countries followed. President Luis Inacio da Silva—“Lula”—led a large delegation of private businessmen and government functionaries to China in May 2004. Lula has consistently made it clear that Brazil seeks a strategic relationship with Beijing. President Nestor Kirchner of Argentina and President Hugo Chavez of Venezuela also visited China in 2004.

The “fourth generation” of Chinese leadership indicated their collective interest in the hemisphere with the visit of President Hu Jintao to the region in November 2004. In addition to participating in the Asian-Pacific Economic Cooperation (APEC) Forum in Santiago de Chile, Hu Jintao and his colleagues made state visits to Argentina and Brazil and also visited Cuba. Expectations were high prior to the arrival of the Chinese delegation, and with good reason. Just in 2004, China's trade

with Latin America grew by 50 percent and nearly half of China's direct investment overseas went to Latin America (about \$18.5 billion), according to figures by the Chinese Ministry of Commerce. An important policy decision taken by Argentina and Brazil during the delegation's visits was to grant China "market economy" status, a move that Beijing has been lobbying for with its major trade partners since China joined the WTO as a non-market economy in 2001 (Chile and Peru have also taken that decision). Also during this trip, the presidents of Argentina and China decided to establish and develop a strategic partnership; in Brazil, the two presidents agreed to deepen the strategic partnership that already exists between their countries.

A visit to Latin America in early 2005 by Vice President Zeng Qinghong followed that of President Hu Jintao. The Vice President visited Mexico, Venezuela, Peru, Trinidad and Tobago, and Jamaica. During the Zeng visit, China and the five Latin American countries signed about fifty cooperation agreements on energy, economic cooperation, transport, telecommunications, and other fields. The Vice President also attended the first ministerial meeting of the China-Caribbean Economic and Trade Cooperation Forum held in Jamaica. The Forum was initiated by China in 2004.

One of the principal drivers of China's presence in the region is, and will remain, energy. Again, this must be seen in a global context. Take, for example, Africa. China has been aggressively forging ties with most of Africa's 54 countries. Energy resources are of paramount concern. But given the leveling off of U.S. influence in the region, China has identified a vacuum for broad and deep economic, political, and military ties with the continent. In more than a dozen African countries, Chinese firms are searching for oil and gas. In 2004, China spent almost \$10 billion on African oil, accounting for nearly one-third of its total crude imports.

In East Asia, China and Japan are locked in a diplomatic and resource dispute over oil and gas reserves in the East China Sea. China continues to search for oil and gas in what Japan terms its exclusive economic zone. China has invested \$1 billion in a project to pump its first gas in August 2005, sending the fuel through a 300-mile pipeline to Shanghai. The government recently announced that over the next 18 months Russian oil exports to China by rail would increase by 50 percent to 300,000 barrels a day. China expects to receive priority status when Russia completes the Siberian oil-gas pipeline.

In the Western Hemisphere, a number of initiatives are underway. Brazil's state oil company, Petrobras, and China's National Offshore Oil Company are studying the viability of joint operations in refining, pipelines, and exploration in their two countries and in other parts of the world. A one billion dollar agreement has been signed with another Chinese company, Sinopec, to build a gas pipeline across Brazil.

In Bolivia, the Shengli International Petroleum Development Company has opened an office in the gas-rich eastern region and has announced plans to invest up to \$1.5 billion, once the status of the pending hydrocarbons law has been clarified. The China National Petroleum Company and Sinopec are looking at oil blocs in Ecuador as possible investment opportunities. A subsidiary of the China National Petroleum Company now produces oil in Peru and in January 2005 a memorandum of understanding was signed that could lead to more exploratory agreements. In Colombia, the state oil company has been discussing exploration and production.

China's other interests are in Bolivia's tin deposits, Chile's copper (China has now displaced the United States as the leading market for Chilean exports), and iron ore, zinc, and bauxite in Brazil. Foodstuffs, principally Argentine and Brazilian soybeans, are a high priority. (Venezuela is discussed separately in the next section.)

As part of its need for these exports from the region, China is willing to invest heavily in the infrastructure that is required to move the goods in an efficient and rapid fashion to convenient port facilities. One of the key bottlenecks in the hemisphere is poor infrastructure, and Chinese investment will be a positive development for many of the countries in the region.

CHINA AND VENEZUELA

One of China's most active bilateral relationships in the Western Hemisphere is with Venezuela. During Vice President Zeng's visit in January 2005, the two countries signed nineteen cooperation accords, including a long-term arrangement for a Chinese stake in Venezuela's oil and gas fields. Officials of the two countries have also discussed cooperative development of untapped energy reserves in Peru, Bolivia, and Colombia. China already operates two oil fields in Venezuela and is now set to develop fifteen additional fields in the eastern section of the country, as well as possibly participating in the joint exploration of the Orinoco belt, the world's largest deposit of crude oil. Memorandums of Understanding were signed on the peace-

ful utilization of outer space, on ocean shipping, and agricultural development. During President Hugo Chavez's visit to China in December 2004 (his third visit), he signed agreements that aim at increasing Chinese investment in Venezuela's oil and gas resources. The accords also involve the construction of a railroad in eastern Venezuela and the purchase of a satellite to improve telecommunications in the country.

President Chavez has made no secret of his goal to diversify Venezuela's petroleum exports to favor Asia generally, and China in particular. It is important that the Congress understand that China's interest in Venezuela is primarily energy driven. There are, of course, similarities in the political discourse of the two states—rhetoric that is a reflection of another time and ideological confrontation. In the context of the broader geopolitical framework I discussed earlier in this testimony, China is pursuing commercial and investment goals in Venezuela that serve its development interests.

Will China risk a rupture in its strategic relationship with the United States over its links to Venezuela? Nothing is impossible in international relations, of course. But given the newly prudent, multilateral approach that China has taken to its role in the world, it is unlikely. The problem is not China, but Venezuela. The United States needs to assess current policy and seek new directions in its approach to the Chavez regime. The most fruitful, I believe, is to use multilateral diplomacy in U.S. efforts to "contain" the regime in Caracas. The good offices of the Brazilians and other Latin American states would be welcome. The European Union, and in particular Spain, should be consulted with regard to overall policy initiatives that might be employed to reduce the level of mistrust between Washington and Caracas. Increased confrontation will yield little in the way of positive results. A multilateral agenda can do no harm and may provide "cover" for both the United States and Venezuela to reduce the stridency of the current dialogue. Similarly, the need for multilateral cooperation echoes loudly in the Taiwan situation.

THE TAIWAN ISSUE

The United States has a long-standing strategic interest in the independence of Taiwan. That, too, must be viewed in the framework of the broader geopolitical relationship between China and the United States. In her first visit to China, Secretary of State Condoleezza Rice met with Premier Wen Jiabao. Wen stated that the overall China-U.S. relationship is sound and that bilateral cooperation in all fields remains fruitful. The Secretary noted that her visit to China shortly after she took office demonstrates the great importance the United States attaches to furthering U.S.-China relations in a constructive and cooperative manner. Secretary Rice stated that the United States adheres to the "one China" policy, abides by the three China-U.S. joint communiqués, and wishes to see the peaceful solution to the Taiwan question. This same position was affirmed by Secretary Rice in an earlier meeting with Foreign Minister Li Zhaoxing, when Li pointed out that the Taiwan issue is the biggest challenge to China-U.S. relations.

Latin America's role in this dispute is nonexistent. But to the degree that a large number of states in the region have withdrawn recognition of Taiwan to recognize the Beijing regime, it is a regional diplomatic breakthrough for China. However, this is a policy initiative that has been underway for a number of years and has little significance beyond the diplomatic game that it is.

CONCLUSION

Given the rapid expansion of trade, commercial, and investment ties between the countries of the region and China, it is important to understand Beijing's motivations. The Chinese regime is engaged in a prolonged commitment to Latin America. The principal and overriding goal is access to the rich reserves of foodstuffs, minerals, and energy resources. That goal will, in turn, require extensive investment in infrastructure, which is desperately needed to make Latin America more competitive and better integrated into the global trading system. To the degree that China's involvement in the region helps to stabilize economic growth trends by producing large trade surpluses, the United States should not view this as a threat in any way. The prosperity of the region is in the national interest of the United States. Given the absence of a "grand plan" for the region in Washington, DC, China's involvement should be viewed in the broader geopolitical framework that I have discussed previously.

It is important that the United States understand that there are growing global affinities between China and Latin America, such as their participation in the Group of Twenty that was organized for the WTO meeting in Cancun in 2003. China will have an interest in the expansion of the United Nations Security Council, and one of those seats will go to a Latin American state, most probably Brazil. The

China-Brazil relationship is among the most important in the region and should be seen as, again, positive for the overall development of the hemisphere.

The world has been jolted by the rapid expansion of China in many areas of the world, in particular Africa and Latin America. Given Chinese growth and the absence of strategic natural resources, it was inevitable that Beijing would undertake a carefully planned policy of acquiring secure supplies of natural resources and commodities. This is good for Latin America, and should be seen by the Congress as complementary to the dynamic bilateral relationship between the United States and China. At this time, there is no evidence that China's interests in Latin America are other than diplomatic—Taiwan—and economic-focused on access to the extraordinary wealth of the countries in the region that has been under-exploited for many decades due to a lack of proper infrastructure. A counter plan by the United States in the region would be most welcome. That is a political decision that must be taken by the White House and Congress. I would urgently support such a development, but the likelihood remains small given the realities on the ground today in Washington, DC.

Mr. BURTON. Thank you very much. The one thing I gathered from all of your testimony was that you not only have some differing views on the problems in Latin America vis-a-vis China, but you think there are things that should be done that are not being done.

What I would appreciate—because the Committee will be making forays into almost all of the countries in Central and South America and the Caribbean over the next 2 years—is if you have an outline on things that should be done by the Administration or the Congress legislatively, or by Executive Order, I would like to know what they are. I really would appreciate, and I will have my staff who are here with me review, if you could give me four or five pages on things that need to be done that are not being done, I can assure you we will take a hard look at it, and you can do this country by country.

And as we go see Chavez, or as we go down to Brazil or Bolivia, or wherever we happen to go, if we have some kind of an outline or blueprint of things that you think need to be done or need to be discussed, or actions that should be taken, I will see if we cannot implement some of those things, or at least make those recommendations to the Administration directly or through the State Department.

We had the State Department here awhile ago, and they always have their view of the situation, and we listen with a great deal of interest, but many times those are not progressive views, progressive ideas to make positive changes. It does not mean they are wrong, it just means that there is not a lot of ideas that we can take and run with.

So I am really, and this is not just a hollow request, I would like to have from each of you your recommendations on what should be done in each of those countries, but in particular the countries that we think we have a problem with: Venezuela, Brazil, I think Uruguay.

Mr. ROETT. Bolivia.

Mr. BURTON. Bolivia, yes, thank you for that. I appreciate that.

Now let me ask a few questions. And if you could get that to us as quickly as possible, Mark, if you could make sure, if you gentlemen could follow up, I would really appreciate it with these folks.

You said the Andes are on fire. That is a pretty strong statement.

Mr. ROETT. I thought it might get your attention, Mr. Chairman.

Mr. BURTON. Well, it did catch my attention, yes. You know, that is pretty graphic when you say that. How severe do you think the thing is? I mean, is it something that you think is about to get out of control and we are going to have revolutions like we saw in Central America and El Salvador and in Nicaragua back in the eighties?

Mr. ROETT. Well, recently we saw the overthrow of the President of Bolivia, who tried to implement a privatization- and market-reform program. He was pushed out by indigenous folks who organized politically for the first time in Bolivian history.

Ecuador has had four, five or six Presidents in the last 4 or 5 years. Nobody can quite keep count. They do not stay very long, and the return of "El Loco," Mr. Bucaram, who was thrown out after 6 months for mental incapacity, now looks to be the frontrunner, and he has come back on an anti-American, anti-globalization platform. Mr. Chavez, we well know what his position is, anti-American, anti-global, anti-market.

Mr. BURTON. Pro Castro, yes.

Mr. ROETT. And we have very serious problems, I think, mounting in Peru as well. And then I left out Colombia, which of course has had a civil war which is not improving. I do not care how much money the Administration is putting into Colombia, that war continues, and the link between Colombia and Venezuela and Chavez is one that needs to be looked at very, very carefully.

Mr. BURTON. I know. Even though I think everybody is trying to—well, he is trying to deal with the problem.

Well, I would like to have from you your analysis and your recommendations on each one of those, and we will take them and see what we can do with them.

Nobody mentioned the Panama Canal. China now has control of both ends of the Panama Canal, and long-term, what does that bode from your perspective? How does that bode for the United States; well, ill, what?

Ms. WATSON. Mr. Chairman, I did not put that in my testimony on purpose. This is the most common question that I get when people find out that I am looking at Chinese involvement in Latin America.

The fact that Panama is the jewel in the crown of Taiwan recognition is the answer for me. If Beijing were nearly as involved in that canal as people assume, because Hutchinson-Whampoa has both sides, the very first thing they would have done is force Panama not only to shift recognition, but to withdraw from the free trade agreement they signed with Taiwan last year.

Neither of those things has happened. So what that says to me is, again, there may be—I do not want—I was very aware of the clock so I tried to be very succinct in my remarks, but I do not want to say I do not believe there is Chinese involvement in places. I know there is Chinese involvement. What I do not see is that there is necessarily as great a threat as we sometimes make things into.

Someone today, and we now have had two long panels so I cannot remember exactly who it was, talked about this relationship, that did it have to be zero sum; that we win and China loses?

China wins, and we lose. I do not think that is necessarily true, at least not yet.

When it comes to Panama, that is my answer. I just do not think we are in that negative a position yet.

Mr. BURTON. You do not think Panama may be the last fruit to drop from the tree when they need to put pressure on the OAS, for instance, to take a different position on Taiwan?

Ms. WATSON. I do not because—and my other panelists can comment—but for China, public visibility of recognition, legal recognition is something that drives them crazy, and the fact that Panama still recognizes Taiwan and does not seem inclined to change that under any circumstances, at least not from what I have seen now, that simply is not something Beijing would be comfortable with.

Mr. BURTON. Okay.

Ms. WATSON. We think they are nefarious, and maybe they are, but that is just one that they could not tolerate.

Mr. BURTON. Okay. Anybody else have any comment on either one of those?

Mr. BROOKES. I mean, I think that Cynthia makes some good points here, but I do not think that is necessarily what the future will hold. The Panamanians may switch sides at any time. I understand that the Chinese are doing a tremendous amount of work on the canal itself, and Panama could change sides, and I am sure this is something—my view is that is what China wants. Whether it is Panama or the other countries in Latin America, every time they can reduce—Grenada dropped out, Dominica dropped out in the last couple of years, some others in the South Pacific, and this shakes Taiwan's confidence significantly.

I think there is a united front that I am sure June could talk more about, a united front against Taiwan, and that is part of it. So as soon as they get to the point where they make—it is probably a matter of—probably a matter of price rather than political—

Mr. BURTON. Do you think it is subtle pressure?

Mr. BROOKES. Sure, absolutely, and the Chinese people, as has been mentioned, are very patient. The Chinese will often remind you they have 5,000 years of history, and they can wait.

Mr. BURTON. Okay.

Ms. TEUFEL-DREYER. I would just add to what Peter said, that I do not think this is a matter of PRC forbearance at all. I think it is a matter of Taiwan upping the ante, and they are playing diplomatic games and, just as Peter said, when the time is ripe the Panamanians will switch sides.

Mr. BURTON. I think you said, Mr. Roett, that we should be focusing, instead of Venezuela, on Brazil.

Ms. WATSON. I said that.

Mr. BURTON. Oh, you said that. And I think you said that because it is a bigger country. They have more resources outside of oil that they export to China and the Far East.

Ms. WATSON. There are more shared interests on the part of the Brazilians and the Chinese than any other—if China is going to target one place in the region where they want to have a very strong relationship, it will be Brazil.

Mr. BURTON. Okay, elaborate just a little bit on that.

Ms. WATSON. Sure.

Mr. BURTON. Why do you say that?

Ms. WATSON. Brazil is the state with by far the largest population. Brazil is the state that is the dominant economy within the region.

Mr. BURTON. Is that long-term true?

Ms. WATSON. I think so.

Mr. BURTON. Even though the oil reserves in Venezuela are pretty large?

Ms. WATSON. Yes, I would still argue that the aggregate interest, the space issue, the energy the Brazilians are trying to get out of the deep sea, the same sort of thing that the Chinese are still trying to do out of the South China Sea, the foodstuffs, the technology in other fields, those are all things that Brazil has a significant leg up on anyone else in the Southern Hemisphere, and I think that very much makes a logical tie.

There is also the fact that the Brazilians would like to have a seat on the Security Council, and I am quite certain that Beijing, already having a seat, would be more than happy to at least run that flag out and say, "Yes, well, we can look at it," although I do not think that they would in fact support a Brazilian seat.

But I just think there is a whole range of things that Brazil offers that no one else in the hemisphere offers them, and I think that that range is important to Beijing.

Mr. ROETT. May I comment? While we are not talking about trade policy today, a very important initiative is the so-called Group of 20, the G-20 that was formed around the 2003 ministerial meeting in Mexico to push the "Doha" round forward.

The WTO Doha round is not moving forward because the Brazilian leadership, backed by Argentina, South Africa and China, in terms of not wanting to, or not negotiating with the EU and the United States over agricultural subsidies and a whole series of other issues. This is a very new and interesting development, I think.

The so-called new emerging markets, large emerging markets, China, Brazil, South Africa, they are very important in terms of now determining the trade agenda, another reason to multilateralize this and make sure that we do not try to put China into a corner, and is part of the discussion moving forward on these strategies.

Mr. BURTON. Since you mention trade, the Andean Trade Agreement and the CAFTA (Central American Free Trade Agreement), how important are those in your opinion?

Mr. ROETT. My sense is that they are important for the country. But of course, as a percentage of our trade with those regions, it is minuscule.

Mr. BURTON. But I am talking more about stability in the region. I know trade is important, but I am concerned about the long-term viability and stability of the democracies in Central and Latin America.

Mr. ROETT. I think free trade, if we are using the hub and spoke approach, which we are, with subregional arrangements, that is fine. Our concern, I think, on this side of the table, Mr. Chairman: Do you have the votes to pass it?

Mr. BURTON. Well, there has not been a President yet lose a free trade agreement, so I am fairly confident the President will get the votes, but it will be a tussle, yes.

Ms. WATSON. I think that the free trade agreement is very important for symbolism. One of the things that—

Mr. BURTON. For symbolism?

Ms. WATSON. Symbolism. One of the things that was discussed in the first panel that I highlight quite a bit in my written remarks is the disappointment that the region feels in their perception that the United States, through the War on Terrorism, has abandoned Latin America with the sole exception of Colombia.

One of their markers for that is the fact that President Clinton went to Miami in December 1994 and signed on for the Free Trade Zone of the Americas to be in place by the end of this year. There is no indication in the region's eyes that we are going to abide by that. We certainly are talking about subregional integration, but one of the reasons I think that the Brazilians have been so successful in their ability to say, "Slow down, Washington is not serious about this"—

Mr. BURTON. Well—

Ms. WATSON [continuing]. Is that they come back to that 1994 meeting.

Mr. BURTON. Well, I think we are serious, but I think we are doing it incrementally instead of in one fell swoop. And I think one of the reasons we are doing it incrementally is because when one tries to do something that large in one fell swoop, it is really tough and may backfire.

Mr. Brookes.

Mr. BROOKES. I was just going to say I think that is a very important arrow in our quiver for remaining influential, whether you are talking about Latin America or South East Asia or other places, and it is certainly a way for us to peacefully compete with other nations, so I—

Mr. BURTON. With China?

Mr. BROOKES. Yes, and certainly in China. I mean, if we are not—if they do not have this opportunity to trade with us, they might look to other places, and China is looking for political and economic vacuums. Like I mentioned before, you should look at other parts of the world where China is becoming increasingly influential, perhaps not the business of this Subcommittee, but other Subcommittees or the Full Committee, and Southeast Asia and Africa and other places, and where the United States is perceived to be absent, the Chinese will step in.

Mr. BURTON. Well, I am Vice Chairman of Asia and the Pacific Subcommittee as well, so I am concerned about that too.

Ms. Teufel-Dreyer, do you have any comment?

Ms. TEUFEL-DREYER. I would just like to second what Peter says.

Mr. BURTON. Okay. Well, let me just end by saying—are there any questions that I have missed that I should ask?

Here is what I would really urge. In the next week or 2, and I know there are requirements on your time, if we could get a small, five- or six-page position paper on what you think ought to be done legislatively or through the Executive Branch vis-a-vis dealing with Central and South American and Caribbean, I would really appre-

ciate it. And I give you my word that we will make sure that those recommendations are synthesized, and then forwarded on to the White House through the State Department? Okay.

Thank you very—do you have something else?

Ms. TEUFEL-DREYER. Yes. One of your Members before asked if China has something equivalent to the Foreign Corrupt Trade Practices law. It does not.

Mr. BURTON. I am sorry. Again?

Ms. TEUFEL-DREYER. One of your questioners in the previous panel asked if China has something equivalent to the Foreign Corrupt Trade Practices. It does not.

Mr. BURTON. They can do pretty much what they want to do.

Without objections, Members will have 5 legislative days to provide and extend their remarks, and submit questions for the record. And if you would not mind answering questions for the record, we may have some sent to you.

Thank you very much. We really appreciate it. We stand adjourned.

[Whereupon, at 4:56 p.m., the Subcommittee was adjourned.]

